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22 September 1982

## WEST EUROPE REPORT

No. 2034

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## COSTS, EMPLOYMENT OF NEW AIR FORCE PLANES

Zurich NEUE ZUERCHER ZEITUNG in German 2 Sep 82 p 5

[Article by Ch.M.: "Modernization of German Air Force"]

[Text] The debates in Bonn during the past year concerning the German-British-Italian Tornado fighter plane have caused a shortfall in the German defense budget—with one-third of the entire Bundeswehr procurement being taken up by the cost of these very low altitude swing wing fighter bombers boasting the most up-to-date navigational equipment which are to be supplied to the armed forces by stages until 1988.

## Modern Fighter Bomber Generation

At the German air force base in Erding—where air force service support regiment No 1 is stationed which reminds one of the aircraft industry and which in fact is responsible for the overhaul of Starfighter and Phantom engines—the Tornado's "bad fiscal name" is discounted. Instead, people there are optimistic about its enhanced conventional capability and simply will not hear of criticism concerning continuing budget overruns. The Tornado—210 of which will go to the air force to make up a total of five squadrons and 112 to the navy to make up another two—has become the showpiece and symbol of German air force modernization which, it is hoped, will help meet tactical requirements well into the next century.

More—albeit modest—progress has been made in modernizing two light combat air wings providing ground support which are being supplied with the Franco-German Alpha Jet. For the time being, the small Wako (weapons training component) detachment at Erding east of Munich is responsible for the Tornado, which is to take the place of the F-104G Starfighter. At Fuerstenfeldbruck air base west of Munich, the 49th fighter bomber air wing, which is primarily responsible for training, has already completed a substantial part of the familiarization program for the Alpha Jet which is to take the place of the old Fiat G-91R/3. In the course of the entire modernization program, the German air force will assign to more air wings to NATO: the 49th fighter bomber air wing consisting of two Alpha Jet squadrons which received instruction at combat training school No 50 and the new 38th fighter bomber air wing yet to be formed and trained at combat training school No 10, which however will consist of only one large combat squadron of Tornado aircraft.

The Tornado has been called a "flying process control computer" because of its data systems which make for high-precision navigational capability. Information on routing, coordinates, targets and defense obstacles can be stored in a cassette. To a layman, this CPGS procedure seems like a card being lightly skimmed over by a compass as the data are fed into the computer. The special terrain following radar of the Tornado can then seek out the target with great accuracy by constantly comparing it with the data stored in the cassette. The autopilot, a low altitude stabilizing "fly by wire" device as well as excellent all-weather and night combat capabilities have made this aircraft—which automatically "knows" where it is at all times—into the most modern fighter bomber in existence. Its normal attack altitude is about 60 meters above ground level at a speed of 1,000 kilometers per hour. At higher altitudes, the Tornado reaches speeds of Mach 2.2. Target accuracy as compared to the Starfighter has been enhanced by a factor of 10. This, along with the future introduction of the MW-1 multi-purpose weapons systems, is of exceptional significance. The MW-1 is a weapons container from which quite disparate ammunition can be dropped on different targets: on tanks, fortified hangars or for the purpose of newly developed ways of blasting airfield runways. Similar to JP-233, the projected British airfield attack weapon, the MW-1 is an integral component of the Tornado weapons system. Without it, the Tornado would remain what it is at present—an extremely expensive, overly sophisticated platform for the purpose of dropping antiquated iron bombs.

#### More Efficient Conventional Carrier Minus Standoff Missile

Air force sources say that two Tornados on an airfield destruction mission might theoretically achieve the same result that it took three dozen conventionally equipped Starfighters or one Starfighter equipped with a Pershing missile with a nuclear warhead to achieve. The capability to deliver weapons on target could thus take the place of the mere target error compensation of existing inaccurate nuclear weapons delivery systems—which can be achieved only at the cost of enormous destruction. This may in fact permit a decisive "raising of the nuclear threshold"—which is one aspect that more or less got lost in the entire debate about Tornado which centered on budget policy considerations. Nonetheless, there are some reservations to be taken into account—such as the somewhat limited operational radius of the fighter bomber. The joke that is making the rounds that airbases in Poland would have to be secured in order to offset this shortcoming does not offer a solution to the problem, of course.

But above all there are doubts being raised concerning present operational plans for this type of fighter bomber—which may not only refer to the Tornado itself but just as well to the American F-111E/F. With the help of some tricks and by switching off some of their electronic equipment, these aircraft still have a chance—given present defense capabilities—to evade the enemy radar screen by flying low and fast. But they still must fly over the target and expose themselves—even with the newest airfield attack weapons which the U.S. Air Force, for that matter, does not yet possess. In this

sense, these highly complicated and effective delivery systems with their highly specialized combat crews available in relatively small numbers would be risked on each mission in such a total way that cost and risk would be more and more disproportionate to actual gains achieved. Looking at the Tornado as well as the American high-performance combat aircraft, the question is whether it might not be high time to turn one's back on this delivery system—which might be perfected with the help of the MW-1 but would still be outrageously expensive—and instead concentrate on developing a much-needed MRASM whose standoff capabilities might make for far more meaningful, cost-efficient operational use. The naval air arm at least has taken a first step in this direction by developing the Kormoran missile.

### Huge Cost Explosion

To fly fast and low as required by contemporary air attack strategy is getting harder and harder in the FRG in view of environmental protection regulations which make the conduct of realistic operational exercises more and more difficult. It is ironic but true that the lower it flies and the faster it breaks the sound barrier, the more of a to-do will there be about an aircraft both with regard to arms and to fiscal policy. The present fly-away cost of a single Tornado stands at DM 37.3 million. Total unit cost including development, maintenance and spare parts storage costs amounts to DM 74 million. Since development on the Tornado started 12 years ago, the unit cost has thus risen by a nominal 135 percent. The reasons given for this politically unpalatable situation are many. 118 percent of the price rise are said to be due to inflation-related cost increases; 90 percent to higher wages in the metal industry; 170 percent to increased prices for aircraft construction materials, and a mere 17 percent to design changes asked for by the defense ministries of the participating countries. As it happens, the British doubted that the MRCA could be "all things to all men." The RAF is the only air force that will get a fighter version of the Tornado for air defense purposes. And the Germans, too, have their doubts about being able to come up with a "cow that is a pig laying eggs and providing wool."

During the 18 years from the blueprint stage to full operational use, Tornado costs were bound to rise. During the past 10 years, even the millions of automobiles coming off the assembly line rose in price on an average of 65 percent. The FRG air force points out that the Starfighter which originally cost DM 8 million apiece now costs DM 25 million with the equipment system price amounting to some DM 50 million at present. But none of this alters the fact that the Tornado broke the arms and fiscal policy sound barrier. The problems resulting from this are likely to make it necessary to change direction and to concentrate on a more meaningful modernization and enhancement of ammunition rather than delivery systems.

At the tri-national distribution and receiving depot No 11 at Erding, a large computer unit helps process production and spare part deliveries from domestic and foreign suppliers. The stock list makes one realize how complicated such a tri-national undertaking can be. This is one of the causes of the German budget deficit of DM 1.3 billion last year. Problems of synchronizing produc-



tion arose primarily between Bonn and London. British production had been behind for a time but then "caught up" to produce 64 units per year which could not be fitted into the long-term German financial plan. Under the circumstances, agreement had to be reached on "stretching" the production program which reduced output to just over 40 units per year. But over the next 3 or 4 years, the Bundeswehr will not be able to overcome its budgetary problems on Tornado even if the most drastic cuts in the defense budget are at least partially restored—such as the reinstitution of the NATO minimum of 180 flying hours as against the 150-hour limit imposed last year. This might help avert the danger of crashes due to lack of flying experience. 20 years ago, General Steinhoff raised the number of flying hours in order to combat the lack of experience which had led to a catastrophic series of Starfighter crashes.

#### Delay in Fighter Aircraft Replacement

The German air force which has caught up with technological development by bringing out the Tornado does not face the same problem with this aircraft as it did with the Starfighter. At TITE Cottesmore in Scotland, where flight training takes place—which is then followed by weapons training on mockups without live ammunition at Jever—even experienced pilots take 4 months to get the hang of the new-type low altitude swing wing aircraft even if it is not considered "more difficult" than the Phantom. It is worth noting that "regenerated" pilots—that is those who have never flown a jet before—are to receive training on the Alpha Jet prior to being trained on the Tornado. As the new aircraft become operational, there are in fact a lot of changes in the training of German air force pilots who had heretofore been trained in the United States exclusively. In the future, realistic low altitude and weapons training for the Tornado will take place at Goose Bay in Canada. The 1st naval air group will be the first to receive the Tornado to replace its F-104G's which were subject to corrosion in surface operations. Next summer, plans call for constituting the new 38th fighter bomber air wing in Jever. Thereafter, the 31st fighter bomber air wing, sorely affected by the sulphur fumes of the Ruhr valley, will be the first air force component to get the new aircraft. After that, there will be two more air wings; then the 2d naval air group and finally, another air wing. Until all of these aircraft are fully operational there are a number of modernization problems to be solved—one of which will be to maintain constant defense strength even while still relying on the old Starfighters.

Thanks to modular construction and quick "exchange of spare elements," Tornado maintenance will be relatively easy and will not require additional personnel. Even in "rear" maintenance facilities servicing the Alpha Jet this is not necessary because the technological advance from G-91 to Alpha Jet is much smaller. Tornado off-aircraft service and maintenance, however, does require more special personnel. The role to be played by civilian industry is likely to continue to be substantial and correspondingly expensive. But this seems acceptable, if the trend can be reversed which had the air force save money on support and stockage at the expense of combat readiness. Another

big price is being paid for elsewhere anyway. While the U.S. air force is already putting a new generation of fighter aircraft into service, the "life" of the two F-4E Phantom II air wings and of the two RF-4E Phantom II reconnaissance wings is simply being extended until 1995. The expensive German TTF-90 followup project appears to have disappeared from view which would indicate that the German air force will at any rate not be prepared for the overall tactical requirements of the turn of the century as far as its fighter bomber modernization program is concerned. The financial battles about one aspect of the modernization program would be likely to turn the one following into still another set of arms policy acrobatics. And then perhaps there might be agreement on the fact that a weapons system instead of one-sided platform thinking might be the responsible course to take politically, tactically and from the point of view of cost efficiency.

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CSC: 3103/669

## DEFENSE MINISTER SJAASTAD DEFENDS MISSILE DEPLOYMENT DECISION

Oslo DAGBLADET in Norwegian 17 Jul 82 p 2

[Article by Arne Holm and Ivar Hippe: "Norway Supports Nuclear Decision"]

[Text] At the request of the Netherlands during the NATO defense minister meeting in May 1981, the decision was made to keep secret the vote authorizing money for the deployment of nuclear missiles in Europe.

By not objecting Norway can be seen as indirectly supporting the agreement to keep the decision secret.

The Ambassadors' meeting in November did not have authority to reverse the defense ministers' May decision.

From May to November elections were held in the Netherlands, Denmark and Norway, while no information on the decision was released in any NATO country.

The above was announced during a press conference called by Defense Minister Anders C. Sjaastad yesterday. Thus he confirmed the major points in DAGBLADET'S story on how NATO's missile deployment decision was kept secret, but he placed more weight on the fact that the so-called double vote from 1979 already implied such a decision.

## Adjusted Higher

"The only difference is that the projected costs have been adjusted higher."

As early as January 1980 the then Defense Minister Thorvald Stoltenberg discussed the existing cost estimates.

Meanwhile, Sjaastad would not interpret the motives that were behind Netherland's request to prohibit releasing of the vote taken at the May NATO Ministers meeting. On the other hand, he confirmed that Norway did not protest the decision, something Sjaastad sees as equivalent to accepting it.

## No Information

The Ambassador's meeting in November could not reverse the vote from the defense minister's meeting. At this meeting the final projected costs were set.



As far as we know, there was no information released in any NATO country in the period between the two votes.

During this period elections were held in the Netherlands, Denmark and Norway. In all the countries the peace movement was increasing, and opposition to the double-vote from 1979 was growing strong. There is reason to believe that if the decisions had been known there would have been a large debate within the various democratic parties. Defense Minister Sjaastad does not agree with the allegations that he and former Foreign Minister Knut Frydenlund were at the center of a cover-up after the nuclear missile deployment decision.

"Both Knut Frydenlund and Gro Harlem Brundtland strongly criticised us for the handling of the case. I want to strongly deny that it was a cover-up," stated Anders C. Sjaastad.

#### Principle is Most Important

"As early as January 1980 during a question period I informed the Storting that Norway would be responsible for 3.14 percent of NATO's costs for the deployment of nuclear missiles in Western Europe."

Thorvald Stoltenberg denied to DAGBLADET that he contributed to the decision to keep secret a NATO vote in May. DAGBLADET alleged yesterday that the defense minister from the Netherlands asked the other NATO defense ministers not announce the nuclear missile decision voted on during the meeting. The minutes of the meeting show that the request to keep the vote secret was made by, among others, Thorvald Stoltenberg. The vote limited the amount of money to be used for preparations for the deployment.

#### Account of the Meeting

"I have accounted for everything that happened. The first concerns the deployment decision in December 1979 and the other is that we would contribute for the costs, and that is what was decided in May 1981. That I have accounted for."

"When did you account for the decision in May?"

"January 1980."

"The decision was made in 1981?"

"The assumption has been the same all the time. In addition it was clear after the decision in 1979 that Norway would pay 3.14 percent of the costs. In other words, I have not attempted to cover up anything."

"What the Netherlands have done I will not comment on, but I have never had problems with informing people on this subject."

#### Confirmation

"Can you confirm that in May 1981 a decision was made that you were a part of?"

"It confirmed what was the assumption all the time, as I had told the Norwegian people."

Former Defense Minister Thorvald Stoltenberg stated to DAGBLADET that he had fulfilled his requirement to inform the people by answering a question from Hanna Kvanmo in 1980. On that occasion Stoltenberg stated the costs as about 15-20 million kroner. The final vote means that Norway will pay about 50 million kroner.

Thorvald Stoltenberg also denied that his actions at the Minister's meeting indicate that he supported the Netherlands demand of secrecy.

"It is possible that they saw that from their viewpoint, but I had already accounted for my view, and for the political implications to Norway."

At a press conference yesterday, Defense Minister Anders C. Sjaastad confirmed that none of the participating Defense Ministers had voiced disagreement with the secrecy.

Secret

"Defense Minister Sjaastad; if at a Minister's meeting in NATO a request that a decision shall be kept secret, is a lack of protest something near to being an acceptance of the request?"

"Yes, I would agree with that. If no one strongly objects, the request is honored. In this case there was a request that no one objected to, even though it was not a part of a formal decision," stated Anders Sjaastad.

Thorvald Stoltenger stated the DAGBLADET that he in no way feels that he has acted dishonourably.

Principle

"My point is that the Norway's participation in principle had been made public. The most important thing, in other words, is the principle, not what happened at this meeting."

"The decision that was made in May has not been made public in Norway or other NATO countries prior to just recently?"

"I can't say with certainty."

"Do you know if it has been made public in Norway?"

"I don't know, I must check on it. But the main point is that it is no major difference in this decision and the decision taken December 1979," stated Stoltenberg.

## ECONOMIC PROGNOSIS FOR THE YEAR 2000

Duesseldorf WIRTSCHAFTSWOCHE in German 20 Aug 82 p 11

/Text/ In its report on Germany, the Basle Prognos AG predicts fundamental changes in the FRG's economy in the years through 2000. The increasing exhaustion of raw material resources and growing pollution will result in an alteration in the definition of the economic principle. Business behavior will no longer be affected by the question how to achieve the maximum result with a given effort but by the consideration how to maintain the prosperity achieved with the least possible wear and tear of production factors.

Still, the material result forecast for the FRG is quite respectable. Prognos expects an annual average economic growth of 2.8 percent through 2000, with in fact a rising trend toward the end of the period under review.

However, the make-up of the national product will change substantially. The German economy's growing international entanglement will be demonstrated in sharply rising percentages of imports and exports (see table). Investments also will gain greater significance. Here the no more than slight growth of the investment rate in the national product (from 25 percent to 26.3 percent) conceals more than it reveals.

The proportion of public investment, for example, will continue to decline. For 2000 Prognos assumes only a barely 12 percent public share in total investment volume. This drop in public investments is explained not only by the dearth of public funds; the removal of public activities to the private sector also reduces the rate of public investment. Private business, on the other hand, will be compelled to increase investment to maintain its international competitive edge. Added to the pressure to invest will be the growing opportunities for investment.

This trend will certainly involve consequences for processing industry in the FRG. Investment goods industries are likely to expand their importance at the expense of the basic materials industries and the consumer goods sector. Among the definite growth branches Prognos includes the aero and space industry, data processing and office equipment, machine construction, electrical engineering and precision engineering.

Prognos also predicts satisfactory growth opportunities for the sectors energy and water supply. The development in this sector, though, will be determined primarily by the growing importance of water supply and disposal. Especially the additional cost of water processing will be reflected in the bottom line.

Energy consumption in the FRG, on the other hand, will show no more than a below proportionate rise. More rational use and the growing awareness of energy scarcity are having a definite impact.

Table--Exports the Driving Force of Growth

Percentages of the Various Demand Components in the Gross National Product (in real terms)

	1980	1990	2000
Private consumption	55.6	54.0	55.1
Public consumption	17.5	16.2	14.6
Gross investments	25.0	25.5	26.3
Exports	30.5	39.4	44.1
Imports	28.6	35.1	40.2

Source: Prognos

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CSO: 3103/659

## SLOWDOWN IN EXPORT VOLUME SEEN

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 30 Aug 82 p 11

/Report by Lothar Julitz: "Shadows Over Exports Too--An Analysis of German Foreign Trade"/

/Text/ Up to now exports have been the vital prop for production and employment in the FRG. Indeed, the at times exceptionally lively export business has preserved the German economy from an even more serious collapse and ensured that the large current account deficits (trade in goods, services and transfers) have been almost balanced. Now, though, July exports have dropped below the comparable level of the previous year--the first time this has happened in any 1 month since early 1981. Does that mean exports too are beginning to sag?

Of course no "reversal" should be read into the results of a single month. However, a slow-down in exports has long threatened. Already at the end of the first quarter 1982 the receipt of orders from abroad (less price increases) was below that of the respective previous quarter. This decline quickened in the second quarter. All major sectors of the economy are affected by this trend .

The most important German export industry, road vehicle construction (17 percent of total exports) fared best with regard to orders from abroad at the beginning of the year. After that, though, it too was sucked in the wake of the weakness of international demand. In the machine construction industry, on the other hand (15 percent of German exports), orders dropped sharply from the first quarter on. This downswing continued in the second quarter. The situation is not much better in the electrical engineering industry (almost 10 percent of total exports).

Due mainly to the respectable stock of orders still held by some industries, the change in demand from our most important trading partners had a delayed effects on our export deliveries. Now, though, we clearly discern the flattening in growth when applying the customary criteria, that is a comparison with the previous year. In the first quarter export deliveries (in real terms) were still 12 percent above the same period of last year; the rise was only 5 percent in the second quarter--noticeably lower. When we compare April-June exports with those of the preceding quarter, we are bound to note a decline (in real terms and seasonally adjusted).

# The 20 Largest Customers--Exports fob

As per 1982 Export Values <sup>1)</sup>	First Half 1981		First Half 1982	
	Million DM	%	Million DM	%
1. France (1)	25,536	13.6	31,551	14.6
2. Netherlands (2)	16,521	8.8	17,766	8.2
3. Italy (3)	15,812	8.4	16,951	7.9
4. Belgium-Luxembourg (4)	14,432	7.7	16,055	7.4
5. Great Britain (5)	11,851	6.3	15,245	7.1
6. United States (6)	11,657	6.2	13,966	6.5
7. Switzerland (7)	10,091	5.4	10,762	5.0
8. Austria (8)	9,504	5.0	10,210	4.7
9. Sweden (9)	4,965	2.5	5,679	2.6
10. Soviet Union (10)	3,897	2.1	4,553	2.1
11. Saudi Arabia (15)	2,645	1.4	4,351	2.0
12. Denmark (11)	3,561	1.8	4,192	1.9
13. Iraq (16)	2,546	1.4	3,961	1.8
14. Spain (12)	2,924	1.6	3,814	1.8
15. South Africa (13)	2,823	1.5	3,297	1.5
16. Norway (19)	2,173	1.2	2,890	1.3
17. Japan (18)	2,180	1.2	2,522	1.3
18. Yugoslavia (14)	2,673	1.4	2,442	1.1
19. Greece (17)	2,241	1.2	2,400	1.1
20. Nigeria (20)	1,920	1.0	2,090	1.0
20 Largest Customers	149,952	79.6	174,697	80.0

1) In parentheses: Last year's ranking

An important reason for the change in demand for German products is the persisting economic weakness in the most important industrial countries. Combined these account for roughly 80 percent of German exports. The United States has not yet emerged from recession, and the persisting stagnation of all business activity in Japan and the West European countries hold down the demand for foreign products.

Moreover, demand from the oil countries has slackened considerably. All of these countries combined purchase almost 10 percent of German exports, especially investment goods. In view of the fact that the industrial countries suddenly and substantially reduced oil imports due to the recession, and in part also because they changed suppliers (North Sea oil), the abundant flow of revenues customary in the past for the oil countries tended to dry up--resulting in fewer orders placed in the industrial countries. The lack of foreign exchange and the pressure of immense debts prevented other developing countries and most state trading countries from giving up their earlier restraints on the purchase of German products.

These changes must be taken into account when presenting the foreign trade result of the first 7 months, which at first glance looks quite good. The real increase

in exports compared with the previous year (5 percent) is due mainly to the surge in the first quarter. We cannot ascribe to the early export dynamism the (nominal) trade surplus of DM28 billion--almost tripled in the course of the year). This is largely affected by the fact that, due to the persistent weakness of domestic markets, imports have grown relatively little. Even crude oil imports (42 million tons from January to July) were almost 10 percent lower than in the same period of 1981. For that reason and as the consequence of fewer price rises, the crude oil account declined within the past year by DM3.3 billion to DM25.4 billion. At the same time exports to the oil countries still rose quite sharply, and the result was a very respectable export surplus with these countries. The almost DM5 billion deficit in the first half 1981 turned into an almost DM4 billion surplus in the first 6 months of the current year.

#### The 20 Largest Suppliers (imports cif)

As per Import Values of 1982 <sup>1)</sup>	First Half 1981		First Half 1982	
	Million DM	%	Million DM	%
1. Netherlands (1)	21,841	12.0	23,582	12.3
2. France (2)	20,518	11.3	22,328	11.7
3. Italy (4)	13,412	7.4	14,733	7.7
4. United States (3)	14,361	7.9	14,670	7.6
5. Great Britain (5)	12,768	7.0	13,732	7.2
6. Belgium-Luxembourg (6)	12,100	6.6	12,832	6.7
7. Switzerland (9)	6,058	3.3	6,618	3.5
8. Japan (7)	6,589	3.6	6,485	3.4
9. Saudi Arabia (8)	6,187	3.4	6,162	3.2
10. Soviet Union (14)	3,744	2.1	5,965	3.1
11. Austria (10)	4,903	2.7	5,568	2.9
12. Norway (11)	4,664	2.6	5,323	2.8
13. Sweden (13)	4,010	2.2	4,037	2.1
14. Denmark (15)	2,851	1.6	3,037	1.6
15. Spain (18)	2,270	1.2	2,653	1.4
16. Libya (12)	4,567	2.5	2,606	1.4
17. Brazil (-)	1,580	0.9	2,090	1.1
18. Nigeria (17)	2,291	1.3	2,046	1.0
19. Algeria (18)	2,642	1.5	1,771	0.9
20. Finland (19)	1,631	0.9	1,710	0.9
The 20 largest suppliers		148,987 81.9	157,948 82.4	

1) In parentheses: Last year's ranking  
Source: Federal Office for Statistics

The results so far, the presumably continuing weakness of imports and the stock of export orders still in hand indicate that we may expect the balance of trade to produce another generally large surplus this year. The latest forecasts assume a



DM60 billion surplus (roughly). This would be DM9 billion more than in the earlier record year 1974 and would suffice to turn the serious current account deficits of the past 2 years into a DM5-10 billion surplus. Also in favor of this assumption is the fact that--in contrast to the preceding years--export prices are now tending to rise more than import prices. As a result the "exchange ratio" with other countries has improved.

Unfortunately all of this would be but poor consolation should export trends weaken more than temporarily, because exports have always had a crucial influence on FRG economic developments. In view of the high starting level at the beginning of this year and the reserves of orders still in hand, no "collapse" is to be expected this year. Still, revitalizing impetus can be generated only by our main trading partners--the industrial countries and the oil countries. Nobody knows whether that will happen in the coming year. In any case we may expect an average real 4-5 percent growth rate for exports this year, and an about 2 percent growth rate for imports.

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## CONSUMPTION, FOREIGN MARKETS PREDICTED TO AFFECT 1983 ECONOMY

Paris L'EXPANSION in French 2-15 Jul 82 pp 49-53

[Article by Philippe Lefournier: "1983: A Jammed Economy"]

[Text] June 1981: the Socialists "revive" the economy, promises of forever and the opposite direction economically (see "Le Franc Roule a Gauche" [The Franc Is Rolling to the Left], L'EXPANSION, 3 July 1981). June 1982: the second devaluation and a price and wage freeze. On this basis, where will we be in June 1983? Here is a general picture of what we can foresee today. The main impact of the government's policy is going to be to slow down the only dynamic factor in the current economy: household consumption. The economic growth rate will fall to a little more than one in 1982 and 1983, increasing unemployment in fact, if not statistically. Price increases will be halted at 11 percent this year but will accelerate again next year. The government will not be satisfied with this decline into stagflation, and so the economic policy will continue to be modified. The austerity measures adopted in June will be followed by others, probably facilitated by the franc's withdrawal from the European Monetary System.

The disturbance of market mechanisms makes the forecast particularly risky, but L'EXPANSION will nevertheless follow its customary practice. Before venturing into the French economy in 1983, we must evaluate the impact of the June decisions on the rest of 1982. We were not among those proclaiming the demise of the "hopped up" 1981 upswing. It did, of course, run out of steam quickly, but the boost in mass consumption continued to bear fruits. The INSEE [National Institute of Statistics and Economic Studies] survey conducted in May on the French people's intentions to buy indicated that they were still in a mood to consume. The crushing blow to the increase in purchasing power dealt by the wage freeze will lead to a decline in saving. Household consumption will still increase by nearly 2 percent (in volume) in 1982.

However, this figure implies a slowdown in the second half of the year, and what can offset it remains to be seen. Business investment is still declining, the construction sector is suffering from the very strict orders given in conjunction with implementation of the 1982 budget and the international upswing has not yet begun. Now it will be difficult to avoid a slackening in economic activity during the second half of the year. France will have its turn to experience the economic decline that hit its partners at the

beginning of the year. This falling off will make the average economic growth rate drop to a very modest figure (1.2 percent), the lowest since the 1975 recession (zero percent) and the 1981 rate (.2 percent). Even if the commercial GDP passes the 3 trillion mark, it is a very disappointing performance for the new government, since some experts were promising a 6-percent increase a year ago and were still expecting 3-percent growth rate at the beginning of the year. Lowered to this point, the French growth rate will still be higher than that of its foreign partners--almost double.

This is why foreign trade will improve only slightly and will show a deficit on the order of Fr 75 billion for the year. As for unemployment, it will continue to rise, affecting more than 2.1 million people by the end of the year (without seasonal adjustments, a definition assumed to be constant). What can the government do to offset the continued deterioration? It can have partial success with nominal trends. The freeze will have a decided impact. First of all on prices: The increase will exceed 6 percent during the first half of the year but will slow to a little more than 4 percent during the second half. The July index will be the first to show the change: Although a 1.7-percent jump was feared because of increases in government rates and the failure of the VAT [value added tax], the hike will be confined to less than 1 percent, despite the increase in oil. August will see an increase in the price of electricity and gas, but the price increase for the quarter will be only 2.3 percent. October will record the lowest index, at .5 percent. Overall, the rise over the year will be contained at 11 percent (or 12.5 percent on an annual average). As for wages, which the price freeze is attempting to moderate, they will in fact be slowed down. The increase over the year will be limited to 13.3 percent (or more than 16 percent on an annual average).

The big question is whether this slowdown will be lasting. It is obviously artificial. The error made in diagnosing the recovery has already had the effect of artificially stimulating demand, increasing deficits everywhere, whereas it is supply that needs to be strengthened. The 1981 national accounts confirm the sharp deterioration in the financial position of businesses. The cash flow rate went down to 53 percent and corporate savings were reduced more sharply than at any time since 1959. Some leaders are now aware of this critical situation. "There is general agreement that the arrangement to share the value added should be corrected," they are saying at Matignon. "Wages have increased too much and corporate earnings not enough. Something must be done immediately to transfer resources to firms."

This is the whole problem.... On 20 May, the minister of economy said: "Raymond Barre made the same diagnosis I did: the economic war, the need for France to get tough." How can you possibly take contradictory measures on the basis of this diagnosis and administer a "small electric shock" to firms? Barre gave them control over this essential variable: their prices. Now that has been taken away. How can you believe in the virtues of a "good" freeze when it just aggravates the problem? Who is the prime minister trying to convince when he says: "For 4 months we are going to pluck up our courage and France will be purged of this added inflation that is paralyzing its economic development."? If there is really an economic war, a head of

government is not going to exhort his fellow citizens to roll up their sleeves to fight "for just 4 months!" And if there is to be any purging, it should be of inflation altogether and not just of our "added inflation"....

Naturally, it is still possible that, through the freeze and a miracle, French-style consensus, the government will get the economy going on the right foot. If not, the drawbacks of the freeze would assume a minimum of determination on the part of the authorities. Somewhere between what is idyllic and impotent, we believe that the June 1981 episode will leave some traces. All of a sudden we are far from the "sweet disinflation" still defended by Jacques Delors on 20 May. The purchasing power must be compromised. As for the price freeze, it is "the roughest since the war," say those who are applying it. But precisely the financial and psychological impact on the already weakened balance sheets of discouraged business leaders could be devastating. There will be damages to pay. How can you expect these overburdened firms to invest or hire? Of course, when the damages become apparent, the freeze will be relaxed, but the accumulation of upward pressures will dissuade the government from removing the controls. Having failed to attack the real causes of inflation, it will be the first prisoner of the controls applied. June 13 was a turning point. The "second stage" of the new power's line of action, announced by the president of the republic, will borrow less from a liberal economy and more from a managed economy.

The conclusion is that the wheels essential to expansion, businesses, could become jammed. They have already been turning poorly, in France as well as elsewhere in the capitalist world, whenever the system went astray: savings are no longer going to productive jobs but to short-term investments; financial risks are inhibiting the business spirit, which is precisely the ability to take risks; and the Western economies are sinking into semistagnation. But France adds to this its own freezes. It therefore seems unrealistic to expect an upswing in the demand of businesses in 1983. Stocks will remain low, especially since interest rates will for their part remain high. Investments of private companies will stop declining and will settle at the low point reached in 1982. Besides the demobilizing impact of government controls, weak demand, the low capacity use rate and financial difficulties (despite the multitude of anticipated special financing procedures) seem to rule out any recovery. It is true that in the public sector, government action will be vigorous: Investment of the major national enterprises will increase by 3 percent (in volume) and that of the newly nationalized industrial conglomerates by 5 percent. The overall growth of corporate investment will be only 1 percent. In the housing sector, the boost in low-income housing will be offset by the continued downward trend in private construction (insolvency of customers, the tax on wealth, the Quilliot law), so that it is expected to stabilize only in 1982.

To boost the economy next year, we cannot count on the demand of business. There are two other possibilities: foreign sources and consumption. As for foreign factors, the prospects are not dynamic. Disinflation is going to continue, but it will affect economic activity. The "cleansing" of the industrial and financial fiber is being pursued, but at an increasing cost of lost jobs, especially in the United States, where the budget deficit is

running up against monetary restrictions and is feeding excessively high interest rates. Germany is beginning to free itself of this constraint as a result of a cautious policy that has enabled it to moderate its wage costs and bring its current account into balance, but it still has to control its government deficit, and industrial investment continues to fall. Few expect things to improve in Germany before the winter of 1983. The United States should be out of the recession by then, but deprived of the support of investment, the recovery will be particularly fragile, as it is here....

So as not to pull the forecast too low, we have, however, opted for a growth in foreign production of about 2.5 percent in 1983, bringing with it a demand for imports of 3.5 to 4 percent. French exports will increase by as much, which means that we will stop losing market shares. This is an optimistic assumption as well. Of course, the franc was devalued by nearly 20 percent vis-a-vis the mark in less than a year, but the cost ratio became so unfavorable for us that many companies were selling abroad at no profit, or even at a loss (such as Renault and Peugeot in Germany). Following devaluation, their decision will be to enlarge their margin rather than to lower their prices. Similar behavior by more fortunate competitors will leave us vulnerable to imports, which will increase by nearly 2 percent, despite a lowering of consumption.

In the end it is consumption--it absorbs the equivalent of 75 percent of production--that will regulate the advance of the economy in 1983. The purchasing power of net wages will not drop as it did in 1982, when the curb on gross wages added its effects to the increase in Social Security contributions (Social Security in November 1981 and UNEDIC in the fall). In 1983, Social Security deductions will be increased somewhat, but a new increase in salaries will balance out to a zero growth in wages. Special allowances (30 percent of household income) will see their rate of growth curbed from 6 percent in real value to 4 percent. But taxes will increase by as much. Overall, the disposable income of the French people will be strictly stabilized in 1983, belatedly in accord with the Barre principle of maintaining purchasing power. (Raymond Barre, in fact, was never able to work out less than an increase of .7 percent in 1980, with 4.8 percent in 1978.) This zero purchasing power achieved by the Socialists will be unique in postwar history, and the resulting growth in consumption will also be minimal. All the same, there will be a 1-percent increase (half as much as this year) because of lower savings. They will drop from 14.8 percent of income in 1981 to 14 percent, another low.

These weak pulls on demand will lead to a 1.3-percent growth in production, barely higher than this year. The quasi-stagnation in 1983 will resemble 1982's, with the one difference that our performance compared with that of others will be the opposite. This time, it will be half that of our partners, indicating how damaging the economic revival policy is. Unemployment will increase by about 200,000 persons, bringing the number of job seekers to 2.4 million by the end of the year (not seasonally adjusted statistics). And these figures are based on the assumption that the decline at the end of 1982 is stemmed. Economic activity will be slightly higher during the year. Before understanding why, we must try to describe nominal trends in 1983.

Only one thing is certain: the sources of inflation will not be dried up by the 13 June measures. Quite the contrary:

--The budget deficit will be worsened by the government price freeze (except for energy) and the drop in fiscal revenue resulting from lowered expansion. On the expenditure side, not only is half the rise in the Interoccupational Minimum Growth Wage (SMIC) charged to the budget, but no specific cutbacks are planned. The 27.5 percent increase in expenditure in 1982 appears unavoidable. The 1983 budget appropriations will balance out closer to 160 billion than to the 120 billion announced (even if these figures can be hidden by debudgeting).

--The social security systems will see their funds increase because of the increased assessments, but the slowdown in wages will counter this effect, and disbursement of allowances will be only slightly slowed, as we have seen.

--Firms should benefit from the moderation of wages, but reduced production will have detrimental effects on productivity, so that unit costs will still increase at 13 percent a year, twice as high as for our foreign competitors. And the freeze, followed by the control, of prices can apparently only further weaken the operating accounts.

#### Lid on a Boiling Pot

For all these reasons, inflation will be more kindled than extinguished by the government plan. It is the creation of additional money that will balance the deficits found everywhere. From zero in covering the 1980 budget deficit, its role has gone to more than 50 percent for the current budget and will make another leap forward in 1983. Treasury correspondents are swamped with paper (in 1 year, outstanding Treasury notes on current account have increased by more than 100 billion), and the money supply will inevitably follow suit. It is true that in the opposite way, outflows of foreign currency destroy money. To freeze prices in these circumstances is really to put a lid on a boiling pot....

The situation will rapidly become untenable for businesses. When faced with its effects on unemployment and bankruptcies, the government will ease the freeze but will not actually abandon it, precisely because of this upward pressure on prices. 1983 will have to face the fact that lasting control is ineffective, unlike a temporary freeze. Prices will rise by 12 percent, which was our forecast before devaluation. To offer this forecast is thus not pessimistic, since the two points less inflation than in 1982 (11 percent instead of the 13 percent predicted earlier) have certainly not been eliminated. Wages will follow and will also begin rising more rapidly again, even without being adjusted. This is not a pessimistic assumption either, since it assumes that the movement will be controlled.

This stepped-up rise in prices and costs in France, at a time when the international economic situation is dominated by disinflation, will not facilitate the stabilization of the devalued franc. There is little chance that the gap between price increases at home and those abroad--which is pernicious



for money and which currently exceeds 6 percent--will be narrowed in a lasting way. On the other hand, the lag in volume trade flows will be in our favor again, since the French "locomotive," puffing away, will once more be placed at the end of the international train. Exports will increase twice as much as imports. But this return to equilibrium in volume will be thwarted by the short-term, perverse effects of devaluation, which will make imports more expensive. This deterioration in trade terms will prevent us from profiting from world disinflation and from considerably reducing the trade deficit.

New pressures could, therefore, exert themselves on the franc. The third downward adjustment that these pressures could lead to would be the final defeat of social liberalism, in that it would provide a pretext for leaving the EMS [European Monetary System]. The Socialists, who say that they would in no case have anything to do with a future Christian-Democrat government in Germany, would thus try to get rid of this disciplinary constraint imposed by Barre. After this first stage in the disintegration of Europe, they would be tempted to resort to the protective devices that are the logical complement of a unilateral stimulus: import controls, a dual rate for the franc (financial and commercial, with the latter more depreciated), disconnected interest rates (return of the discount rate)... Social voluntarism would adopt more restrictive measures domestically, too: general control of prices and margins (higher, it is assumed), continuation of the wage freeze, fiscal increases, controls on lay-offs and employment subsidies.

This last is the supreme objective of the government, even if it remains ignorant of what is required first in this implacable world of the 80's: monetary and financial austerity. The president of the republic pointed this out clearly in his press conference: "We are following the same policy, we are keeping the same objectives"--without ever once using the words "austerity" or "discipline."

#### With Regulation and Constraints

With social-liberalism being taken over by social-voluntarism, and with economists like Christian Goux or Philippe Herzog taking over for Jacques Delors, it will be easier to give the economy a sustained boost. The mini-recession at the end of 1982 and the climb in unemployment will in fact not be easily tolerated, particularly on the eve of city elections. But what can be done with these huge deficits and this weak franc? Mr Goux, president of the Finance Committee in the Assembly, has the remedy. "Growth must be revived," he explained, "with regulation and constraints." Even if this program seems strange to those who still believe in the effectiveness of markets, it could lead to a minirecovery: an acceleration of budget expenditures, an increase in public sector investments.... This mobilization would finally give meaning to the nationalizations. "The large conglomerates were not taking as many risks as were needed," Christian Goux told us. "The government is going to give them the means. The EDF [French Electric Power Company] is the model. Profits are not the only thing!"

This is why the profile of the French economy will reflect a certain recovery during 1983, strengthened by the favorable edge of foreign trade. Whether this recovery will last is another thing. The impetus, but also the constraints, provided by the government could jam the wheels of the private productive apparatus, disqualifying France from the development race.

# The National Accounts

Average Annual Increases, in Percent	1981 National Accounts		Our 1982 Estimates		Our 1983 Forecast	
	Volume	Price of Francs	Volume	Price of Francs	Volume	Price of Francs
Supply						
Commercial gross						
Domestic product	.2	11.5	1.2	12.0	1.3	11
Imports	-1.5	18.8	2.5	12.0	1.8	10
Total	- .2	13	1.5	12	1.4	10.8
Demand						
Household						
Consumption	1.7	13.1	1.9	12.5	1.0	11
Government						
Consumption <sup>1</sup>	4.4	13.1	3.5	12.5	2.0	11
Gross Investment	-2.3	12.2	-2.2	11.5	0.7	11
Individual enter- prises and com- panies	-3.5	12.7	-4.5	11.5	1.0	11
Households	-1.1	11.1	-1	11.5	0.0	11
Government	-	-	3.5	11.5	0.5	11
Financial insts.	-1.1	12.5	1.0	11.5	1.0	11
Turnover of stock <sup>2</sup>	-	-	-	-	-	-
Exports	4.6	13.5	1.5	11	3.5	10
Total	-0.2	13	1.5	12	1.4	10.8
Retail prices <sup>3</sup>		14		11		12
Hourly wages <sup>3</sup>		16.3		13.3		13.5

1. Net intermediate consumption of residual sales.

2. In billions of current francs.

3. Change from the beginning to the end of the year. Slow growth in 1983 after the 1982 disappoint-  
ment: The decline in consumption is barely offset by the stabilization of investment and the beginning  
of an upswing in foreign trade (in volume). Temporary slowdown in prices in 1982.



## EXPENDITURES FOR 1983 BUDGET OUTLINED

Paris LES ECHOS in French 2 Aug 82 p 2

[Article by Pierre Locardel: "1982 Budget: Fabius Reverses Steam"]

[Text] With the actual value of revenue dwindling and expenditures tending to jump spontaneously, the minister of the budget's task is harder than ever. This perhaps explains the nervous irritation Laurent Fabius displayed when reporting that "false rumors are unfortunately beginning to circulate about the preparation of next year's budget." He added that the documents would be ready in September and "not before," that this "alleged information" is fueling a political campaign and that there is no question of increasing taxes.

It is certain that the second part of the draft budget, revenue and taxes, is not far along at all and that the first, expenditures, has been put back on the drawing board, turned topsy turvy, to take into account factors of the new official economic policy (price and salary freeze).

It is clear from the beginning that this new policy will have a negative impact on tax receipts, since the price increase forecast for next year was reduced to 8.5 percent instead of 11.5 percent and all resources collected on the spot (VAL [value-added tax] and indirect taxes, but not income tax, which is calculated on the basis of 1983) will therefore be reduced.

At the same time, it was therefore necessary in due order to restrain the amounts in all credit categories. This was done through a fixed abatement of about 3 percent. Planned growth in expenditures was thus cut to 13 percent instead of the 16 percent in the former calculations and 27.5 percent in 1982.

Total expenditures will be about 905 billion francs. The increase in the gross domestic product is estimated at 11.5 percent, including 2.8 percent for expected economic growth next year.

The value of the gross domestic product should be about 4 trillion francs and the deficit should be 120 billion. (The famous 3 percent set by the president).

As for the division of the expenditures, it will remain what it was in the original draft bill.

Government operating expenditures (telephone, publications, building maintenance, rent, travel, office furnishings) will remain the same in terms of value, which means a sizable decrease in constant francs. Unfortunately, these expenditures represent only 3 percent of the total.

Hiring of government employees, strong in 1981 (55,000) and 1982 (73,000) will be reduced next year to 21,000 or 22,000: necessary austerity. The areas that will benefit are teaching, the police, tax services and jobs in the public interest. The remuneration of government employees, which is approaching 300 billion, should not go over 325 billion next year thanks to the new policy of controlling salaries.

Economic and social activity (social assistance, aid to industry, employment and savings) will be "pared down." But the potential 10 billion that has been identified cannot be saved in one fiscal year. Transferring the financing of certain subsidies to the banks can only be done gradually (taking it out of the budget). Also being put off until later is the substitution of tax relief for some current aid.

Only some priority sectors will escape from these radical cuts: employment, research, teaching, culture, industry and nationalized firms. The PTT [Postal and Telecommunications Administration], agriculture, commerce and defense will be very tight.

As for the national debt, the slowing of inflation and the expected moderation in interest rates will keep the increase to 11.5 percent instead of 42 percent this year. The budget portion of the debt will therefore "only" increase from 53 to 61-62 billion.

Capital expenditures will grow by 19 percent. Here again we see a turn away from last year's policy. The "boom" in expenditures and the magnitude of the deficit are no longer considered "courageous acts."

Despite everything, this will not be enough to bring the deficit to the scheduled 120 billion. There is a good 15 billion too much. Especially since the administration intends to grant tax relief to the least favored categories, the cost of which will have to be taken over by so-called well-off taxpayers. We are heading toward an emphasis on redistributing the burden among "debtors."

In one form or another, this redistribution will involve family allocations, the upper tax brackets, tax on wealth, inheritance taxes and possibly a more severe tax on capital gains in real estate (despite the president's promise). And also reinforcing the campaign against tax evasion.

This "turn of the screw" will not necessarily figure in its entirety in the government draft. It could be introduced by amendments from the Socialists, who will present their proposals for tax reform 13 September. The basic idea is to stimulate popular support for a policy of austerity by hitting the rich and the well-off. Managers, the middle class and professionals will still be on tenterhooks.

## MORE SALES ON CREDIT TO POOR OR SHAKY COUNTRIES

Paris L'ES ECHOS in French 13 Aug 82 p 4

[Article by Pierre Locardel: "Our Exports Are Increasingly Oriented Toward Poor or Shaky Countries"]

[Text] No one is in doubt any longer--French foreign trade got off to a bad start. A deficit of 43 billion in 6 months, two times greater than last year. A negative balance of 28 billion with the European Community, instead of the 10 we had during the first half of 1981. The imbalance in our trade with the FRG is against us and has gone from 9 to 17 billion. The penetration rate of the French market for consumer goods has gone from 13.8 percent in 1973 to 21.6 percent in 1981.

Compared to last summer, our exports expressed in volume have fallen 8 percent. This year the difference between imports and exports could be between 80 and 90 billion francs, compared to 51 in 1981.

The major concern is that the deficit is due both to a slowdown of our exports and a boom in purchases of durable consumer goods abroad: household appliances, textiles, automobiles. The situation is bleak and that is why it will be examined next Wednesday at the cabinet meeting.

In these circumstances, it is not surprising that France, the number three world exporter 5 or 6 years ago, has now moved back to fifth place, behind Great Britain.

This decline obviously illustrates the difficulties of French firms, the aging of our manufacturing infrastructure, which has equipment and uses technology that is not updated quickly enough, and inadequate competitiveness related to a surfeit of expenses and a lack of equity.

If we look more closely, we also notice that the trends in our foreign trade are of even greater concern for the future than it appears at first glance. The figures in fact include a definitely high proportion of large contracts for durable goods signed with foreign countries.

Such contracts during the first 5 months accounted for 50 billion francs, compared to 43 billion for the same period last year.

## We Are Selling On Credit More and More

This gain is partially explained by the increase in export credit rates that occurred in mid-May and that caused the early signing of a number of contracts. In addition, a portion of these contracts has been obtained because of long-term loans with very low interest rates (costly for the French nation), loans having an amortization that appears aleatory for reasons of political and financial instability.

This is where it hurts. Although our position is deteriorating in regard to most industrialized countries, we are selling more and more to poor and shaky countries who pay us with advantageous credits which we granted them without having any solid guarantees regarding reimbursement.

It is not certain that large equipment contracts will undergo such a rapid rate of growth in the future, because of the growing indebtedness of developing countries and the drying up of the financial resources of the oil countries. The nature of this fact is such that it can disturb our sales.

Last year, while our purchases from the OPEC countries increased modestly, our sales recorded a leap of 43 percent.

Similarly, our trade with other developing countries increased rapidly (about 24 percent) and left us with a positive balance of 23 billion francs.

## Financial Dumping Is out of Breath

The economic situation will probably not allow such good figures in the near future. It is especially not certain that these exports can continue to increase at the same rate, when the notorious state of insolvency of some of these countries is taken into account.

Brazil, for example, has added a trade balance that is structurally in the red to 480 billion francs in debts.

A number of contracts were "extorted" due to a financial dumping which was even more advantageous for the buying countries because a buyer-credit system was added to the long-term loans at low interest rates that they receive.

This system provides special superguaranteed credits for starting up preliminary work, such as the construction of a factory. From the exporter's view, the operation holds less risk than the sale on the foreign market.

COFACE [French Foreign Trade Insurance Company] covers him at 85 percent before delivery and 95 percent afterwards. In particular, he is certain of being paid normally by French banks.

This practice of subsidizing foreign rates when compared to conditions of the domestic market has been regulated within the OECD. Several "ceilings" have been set. But these reference rates are nevertheless ignored, including by the French treasury, which resorts to "extraordinary procedures" (as in the case of the Soviet pipeline).

Competition for the quantity of credits offered follows the competition of rates. It also happens that the sales price is artificially inflated and that, by secret agreement, part is returned to the banker.

Unfortunately, this desire to export at any price is beginning to come up against sizable obstacles. French banks have taken many risks in this area and they are now seeing delays in payment and nonpayment increase. The French treasury itself is becoming more strict in regard to export credit (increased taxation, fewer guarantees).

How much the total figure is for risks taken in this manner is not known. But it is enormous. Last year we sold almost 100 billion francs' worth of goods in non-OPEC developing countries and 25 billion in Eastern Europe. And a large part on credit.

Because of having accumulated a bottomless number of debts, the reserves of the Bank of France will soon no longer be adequate to cover our financial commitments for export.

The Recent Trend in Our Exports  
(in billions of current francs)

	<u>1979</u>	<u>1980</u>	<u>1981</u>
OPEC Countries	32	41.5	59
Other developing countries	62.5	75	94
Socialist countries	19	21.2	23.5
EEC	225	244	265
Other OECD Countries	77	88	108

It should be noted that in the space of 3 years our sales to developing countries have increased by 50 percent, compared to only 20 percent for the countries of the European Community and 40 percent for the other countries of the OECD (i.e., without the EEC). The increase surpassed 80 percent for the OPEC countries.

9720

CSO: 3100/904

## COMMENT ON MINISTER'S INDUSTRIAL ACTIVITY REPORT

Athens AKROPOLIS in Greek 27 Aug 82 p 1

/Editorial: "What He Did Not Say"/

/Text/ With regard to /Minister of National Economy/ Arsenis' statements, we would want to say that they may not have had to take place. The new super-minister on economic matters has been studying the problems for a period of 2 months. And what did he say?

1. That productivity is low. That, however, is known. And that if we wanted to be saved economically-speaking, we must raise it. And that too is known. But how will we increase it? He did not say. Because how can he admit that the government is doing its all to lower it? It legalized the take-overs. It promotes self-management. It prohibited the protection of all those who want to work in case of unemployment. It cultivates class hatred. It makes mass appointments, converting every public organization into havens of underemployed. It tries to check unemployment by restricting the number of work hours. It takes away output. It is impeding movement in the Attiki basin. And Mr Arsenis talks about an increase in productivity. Black humor!

2. That investments in capital goods are down to zero. That too is known. And investments must be made. Also known. But how? He did not say. Because how can he admit that there can be no investors so long as the government does not renounce its vague socialistic transformation.

3. That the role of private initiative is vital. Also very well known. And that it must be accentuated. But how? He did not say. He did, however, proclaim that the war industry and the pharmaceutical production and business would be nationalized. But he himself admits that state enterprises are bankrupt. Does he therefore want to bankrupt these domains too? And who can guarantee private initiative that tomorrow there will not be more nationalizations?

4. That for private initiative to become more effective it needs stability. A well-known principle. What kind of stability will exist when the government targets everything in a murky transformation and refuses to clarify its content? What kind of transformation is it seeking? When will it implement it? How? Mr Aresenis said nothing on these matters.

If Mr Arsenis really wants to succeed in realizing the economic recovery of the country, he must convince the government to come down to earth. And the sooner the better for all of us.



## NATIONAL ECONOMIC INSTITUTE SEES INFLATION ADVANCE IN 1983

Reykjavik MORGUNBLADID in Icelandic 4 Aug 82 p 2

[Article: "Inflation Will Be 60 Percent This Year and 75-80 Percent by the Middle of Next"]

[Text] Inflation should be around 60 percent this year if no special measures are taken to reduce it. So it states in a review of the current and prospective economic conditions drawn up by the Icelandic National Economic Institute at the request of the prime minister. The review was sent to labor market representatives before the weekend for a conference convened by Prime Minister Gunnar Thoroddsen yesterday at Government House. It is stated in the Economic Institute review that inflation will be 75 to 80 percent by the middle of next year under the same conditions.

The review says that the cost-of-living index has risen from February to August at a rate that would correspond to 55 percent for the entire year. In terms of price development and the accounting position of exporters, however, inflation is likely to be 60 percent this year. While the rate of inflation has been considerably less than 60 percent for the first half of the year, it will be considerably more than 60 percent for the second half.

It is also stated in the Economic Institute review that the fishing catch for the first 6 months of the year was 17 percent less in actual value than during the comparable period last year. The prospects are that production of ocean products will be 13 to 16 percent less than last year and that will reduce national income by some 3 percent in addition to contributing to a decline in other areas of employment. The trade deficit for the first half of the year was nearly 900 million krona, or nearly a fourth of all exports and 6 to 7 percent of national income. If conditions remain unchanged, the prospects are that the deficit will not go below 5 percent of national income for the entire year. This is influenced by the fact that the stockfish market will soon open up in Nigeria; otherwise the deficit would be more. For the same reason, a parallel deficit in domestic trade will improve later as well. This deficit is now likely to amount to 9 percent of national income or more. The cash position of banks worsened by around 830 million krona from the beginning of the year to June. It is estimated that foreign debts will equal

more than 40 percent of national income. The foreign debts payments burden could be 20 percent of export income this year.

The review of the Economic Institute notes that the operating deficit of smaller trawlers has been at least 19 percent for the first 5 months of the year and more than 30 percent for large vessels. Growing competition from Canada in the U.S. market still has a serious effect on freezing plants, which are in great difficulty. The review also notes a price weakening in aluminum and industrial earth that is causing Iceland difficulties in this area and, last, says that monetary developments in Iceland have been characterized by a considerable reduction of domestic loans and worsening of the disposable funds of banks. At the end of June, accounts receivable of the Domestic Loan Department of the Icelandic Central Bank amounted to around 900 million krona.

9867

CSO: 3111/51



## SOVIET 'SUCTION' FISHING SEEN THREATENING WEAKENED ECONOMY

Helsinki HUFVUDSTADSBLADET in Swedish 24 Aug 82 p 11

[Article by Lennart Hjelmstedt: "Soon Not Enough Fish for Iceland"]

[Text] Reykjavik (FLT)--The catch limit for most types of fish has already been reached. Therefore no more people can enter the fishing industry, and that means that Iceland must develop other industries, industries which can be built on their great access to electrical power. So said Steingrímur Hermannsson, member of the Center Party and minister of fisheries in the Icelandic Government.

Iceland is afflicted with inflation expected to exceed 40 percent this year.

"We devalue gradually at regular intervals, but besides we have continuous devaluation," said the fisheries minister.

#### Still No Unemployment

But unemployment still has not hit Iceland. It is coming, however, as soon as the catch limit is reached. The net population increase in recent years has been up a couple of percent, which means that large groups of youths will soon be insisting on their places in the labor market. It is clear that the fishing industry cannot accommodate them.

The Icelandic fishing industry is among the most effective in the world. Productivity is high. A small Icelandic fishing trawler can land 5,000 tons of cod per year. The fishing fleet has largely been modernized, but the need for manpower has not increased.

Today fishing accounts for 78 percent of the foreign exchange receipts. Iceland's high living standard stands or falls with fish and the market for the fish. It is a market which has hardened, and prices have declined. Therefore the Alþingi has at long last decided to invest in industrialization

based on the enormous access to geothermal and electrical energy. It is estimated that only one-tenth of the possible water power is used today. Therefore a new electrical plant is being built near Saudarkrokur in northern Iceland.

On the other hand, oil is not interesting.

"It is 1000 meters deep, and there is still no technique for bringing it up," said Steingrímur Hermannsson.

#### Dispute With Switzerland

There is today really only one export industry of any form on Iceland, namely the aluminum factory at Straumsvík. A Swiss firm operates the factory and has an agreement on the price of electrical power which will last into the 90's.

The socialist minister of industry has now stirred up a row by claiming that the firm, through price manipulations, pays too little for electric power, and that has caused a debate about part state-ownership in this and future firms.

One of the more concrete industrial projects is a mineral wool factory which will probably be built in Saudarkrokur. But it will not be an export industry.

#### Fishing Boundary

So far Iceland has managed its trade balance well. In spite of two oil crises the GNP has increased 3.5 percent during the 70's. But now it has declined at the same time as imports have increased. The oil crisis affected Iceland fairly little, since home heating is largely provided by geothermal heat.

But the decisive reason why Iceland succeeded in postponing the crisis is surely that Iceland won the so-called cod war in 1975. That was the year that Iceland moved its fishing boundary out to 200 nautical miles. This resulted in a 60 percent increase of the catch in only 4 years.

"The fishing boundary has meant a lot," confirmed Steingrímur Hermannsson.

"Because of it we now have control over the stock of cod. We have raised the age and size of the cod being caught, and the cod catch has doubled in 5-6 years. It is now 450,000 tons."

#### Russian 'Vacuum Cleaners'

"We follow carefully the advice of marine biologists and change the rules for fishing quarterly if needed."

The herring, which was judged to be fished out, has returned, but it is an entirely different breed which does not have the same quality as the old Icelandic herring. The market for herring is, however, weak. Another large species is the capelin, which is now threatened with being fished out.

The margins, therefore, are small. And outside the fishing boundaries there are the large Soviet fishing fleets which "vacuum clean" the continental shelf, unconcerned with the degree of coarseness of their nets.

"They pay little attention to the condition of the fish stocks," said Steingrímur Hermannsson.

It now looks as though the Island is approaching a phase of stagnation. Inflation has caused large demands for pay raises and recently the nurses and clerks conducted a "warning action" for higher pay. Today a nurse earns about 6,500 Icelandic kronor (about 2,600 Finnish marks). Food prices are high, although Iceland has a surplus of meat which can only be exported with the help of government subsidies. Real wages have sunk at the same time as food prices have increased between 40 and 250 percent in one year. The cost of living index rose 400 percent in 4 years, and gasoline prices 916 percent!

In the wage negotiations the government has said no to every wage increase. LO [Federation of Trade Unions] is asking for 15 percent and is now preparing for a strike.

#### The Women Are Coming

Iceland is governed today by a coalition of conservatives, social democrats and socialists, plus farmers (center). The question is whether the government has the unity required to handle the problems now confronting it. In the latest municipal elections the conservatives [Independence Party] made strong gains.

So did the special women's list (Kvennframbodid) which was launched in the largest cities. This list became a real threat, primarily to the social democrats. The women serve as buffers in the fishing industry, and their pay averages one-half of the men's, say the women.

9287

CSO: 3109/229

## REPORT ON LABOR NEGOTIATIONS, COSTS, WAGE INDEXATION

## Effects of Labor Costs, Social Charges

Rome POLITICA ED ECONOMIA in Italian Jul-Aug 82 pp 21-23

[Article by Stefano Patriarca: "Labor Costs and Others"]

[Text] When a greater distancing and degree of objectivity can be brought to bear on an analysis of the economic events of the years 1978-1981, that period will probably be seen as one of those signaling a break with the behavioral pattern of many of the factors affecting the dynamics of income distribution and those of labor costs. The analysis herein is perhaps somewhat premature, but meaningful evidence is adducible, in my view, of changes that are more in the nature of structural alterations than of cyclical or situational adjustments. In this article, I shall deal in particular with the dynamics of labor costs and of the distribution of income in industry in its narrow sense.

In 1981, the increment in remuneration per employee in industry in its narrow sense (see Table 1) was 21.7 percent, while that of earned income per employee was less, that is, 19.4 percent, owing to the effects of the state's temporary takeover of social charges, CIG [Unemployment Benefits Fund] operations, and deindexation of contingency funds for longevity pay. The increment in actual gross remuneration per employee was 2 percentage points, while net remuneration (owing to continuation of part of the fiscal drag) increased by 1.4 percent or 0.9 percent (depending on whether the worker has a remuneration equal to the mean or whether he has or does not have family allowances).

As can be seen, the remuneration increment was certainly not substantial in the mean, but it was significant and above all quite contradictory to the general condition of the economy, which was characterized by a drop in productive level.

This phenomenon is better explained by analyzing another figure. The cost of labor in 1981 increased by 18.8 percent if we measure productivity per worker against the gross product at constant prices or, more correctly, by 17.4 percent if we measure productivity against the industrial production index (Table 1). The spread between 19.4 and 17.4 percent is explained by productivity, which increased by 0.5 or 2 percent depending on the measurement used; in terms of hours, productivity increased by around 3 percent.

Table 1 - Industry in Narrow Sense (Annual Percentage Variations)

<u>Year</u>	<u>Remuneration Per Employee</u>	<u>Labor-Earned Income Per Employee</u>	<u>Real Remuneration Per Employee</u>	<u>Productivity Versus Gross Product</u>	<u>Productivity Versus Industrial Product</u>
1971		6.3		-0.5	-1.5
1972	10.6	4.6		5.1	5.2
1973	23.7		12.1	8.2	7.5
1974	21.8		1.9	2.5	1.8
1975	20.8		3.1	-9.1	-9.0
1976	23.5	23.6	6.1	11.9	12.1
1977	27.7	19.8	7.0	1.6	2.3
1978	15.6	14.4	2.8	3.4	15.7
1979	17.4	16.6	1.6	5.6	6.2
1980	21.0	18.6	-0.1	4.7	5.2
1981	21.7	19.4	2.0	0.8	2.0

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Source: Compilations by IRES-CGIL based on figures by Banca d'Italia

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[Notes]: These compilations relate to the dynamics of remuneration, cost-of-living allowance, cost of labor, and prices in industry in its narrow sense.

All compilations are based on figures contained in Banca d'Italia Report 1982 and in the study titled "Costs and Profits in Industry in Its Narrow Sense: An Analysis of Quarterly Figures" by the Research Service of Banca d'Italia.

Compilations relative to inflationary factors for the year 1981 follow the same methodology applied by the Banca d'Italia for the preceding years and illustrated in Banca d'Italia Bulletin January-December 1981.

his statistic represents quite a departure from the experience of the 1970's, when the variations in production levels and productivity pointed in the same direction rather than opposite ones. The CER [European Research Center] has referred to 1981 as the year of the silent restructuring, precisely because of the emergence of a trend marked by enterprises of a capacity for increasing productivity even during downward phases, through a recovery of flexibility of "labor" input. The massive use of the CIG by enterprises in 1981 is probably only the tip of an iceberg made up not only of a reduction in absenteeism and, in general, of hours not worked (but paid), but above all by the emergence of the initial results of a process of profound change that had begun to set in during the early 1970's and that concretized not in 1981 (as the CER appears to be indicating) but in fact during the years 1978-1980. It was during this 3-year period that the gross revenues produced by a very substantial growth (if compared to that of the other countries) enabled the putting into effect of a process of accumulation toward substantial changes in the structure of productive inputs.

The wave of investments in machines and equipment during that triennium appears as one of the leading factors in this transformation, the result of which has been a very substantial reduction in the loading effect of labor costs on the overall cost structure, and the realignment of portions of the production cycle, rendering it more conformable to fluctuations in the economy (consider, for example, the operational change in inventory management that has taken place in the last few years).

Evidence of this process is contained in the figures given in Table 2, which show the effect of labor costs on overall costs (labor plus assets and services procured from the other sectors) in industry in its narrow sense. The labor cost component dropped from 44.7 percent in 1971 to 35.1 percent in 1981; this drop is the combined result of faster rises in costs of inputs other than labor, and of the processes of "labor-saving" restructurings.

This phenomenon is amply confirmed also by the facts relative to the major enterprises reported by MEDIOBANCA, which evidence a process that, while differentiated as to intensity within the various sectors, is nevertheless quite unequivocal.

Obviously, a load reduction of this magnitude will, in the long term, diminish the effect that variations in labor costs have on total costs and hence on prices. Table 3 shows the variations in prices of inputs other than labor and from the other sectors of the economy, labor costs, total costs and prices.

The fact is evident that the inflationary dynamic of recent years is largely explained by raw materials and by the inputs the industrial sector procures from the other sectors, if one considers that the variations in the costs of the other inputs have almost consistently been greater than the variations in labor costs and that profit margins have deteriorated (cost variations having exceeded output price variations) during the years, except 1975, in which the increase in the cost of labor was less than that of the other costs.

Table 2 - Impact of Labor Cost  
on Total Costs (Per-  
cent)

1971	44.7
1972	45.3
1973	42.9
1974	37.6
1975	42.8
1976	40.1
1977	40.4
1978	41.3
1979	39.4
1980	37.1
1981	35.1

Source: Compilations by IRES-  
CGIL based on figures  
by Banca d'Italia.

Table 3 - Variations in Inputs, Outputs, Labor Cost  
and Total Costs

	(1)	(2)	(3)	(4)
1974	50.9	20.3	37.8	36.4
1975	7.8	34.3	17.8	14.4
1976	22.9	10.3	17.5	19.6
1977	17.5	17.0	17.3	17.3
1978	7.3	12.7	9.5	10.7
1979	18.6	9.8	15.0	17.1
1980	26.4	14.7	21.8	21.8
1981	28.1	17.4	24.2	17.8

Source: Compilations by IRES-CGIL based on figures by Banca  
d'Italia.

Key:

1. Variations in Prices of Inputs Other Than Labor.
2. Variations in Labor Cost Versus Industrial Production.
3. Variations in Total Costs.
4. Variations in Prices of Outputs.



This consideration is strengthened by an analysis of the ex post breakdown of the inflationary contribution of the various cost factors. This assessment is obtained by multiplying the cost variation by its effect on the total cost of the factor under consideration (Table 4).

The rescaling of the labor cost component in the inflationary process, as evidenced by the table, is owing precisely to the structural changes in costs referred to above.

Even the role of the cost-of-living allowance in the business-cost dynamic is considerably rescaled when adjusted for the effective weight the wage indexation mechanism brings to bear on the total-business-cost structure. From an analysis of the contribution in terms of percentage, as shown in the second part of Table 4, there emerges the fact that the years of highest inflation are the years in which the impact of labor cost on business cost was the lowest (1974, 1979, 1980, 1981 [as published]): The impact of the cost-of-living allowance on the total inflationary contribution of business costs has remained around 17 percent after 1978.

The reasons underlying the steadfastness of productivity in 1981 are to be found in the opportunity taken by enterprises to reduce payrolls, openly or disguisedly (CIG), and in the changes brought about in the productive structure of enterprises, which rescaled the role of labor costs as a determinative pressure factor in the overall cost of doing business, giving way instead to the operativeness of labor market conditions as a determinative variable.

Within this framework of reference, an answer is to be found to the question posed at the start of this article: How was it possible to maintain an unyielding level of actual gross remuneration during a recessionary phase? It appears evident that flexibility of labor input was gained at the expense of wage outpayments aimed at recovery by the enterprises of control over productivity increases and hence at the adaptation of the income distributional pattern to the business downturn. During the 1970's, instead, it was precisely during business downturns that an increase occurred in the distributional share of employed labor, owing to the rigidity of the conditions governing the remuneration of labor. In this regard, consider the fact that whereas during the prior recession phase (1975) the output per employee on the payroll decreased by 7 percent, in 1981 it increased by 3.9 percent.

It is on this rigidity that the employers train their sights when faced with the prospects of very modest growth and much more marked cyclical variations than in the past, centering their initiatives on wage scales and indexation, not so much because of their relative levels as because, as presently constituted, they are a factor that cannot be used as a unilateral means of recovering flexibility.

In this situation, therefore, the gap between employment and business objectives becomes ever wider without it being offset by an increase in real wages: The card consisting of a rise in real wages for a smaller job enrollment is in any case a card fraught with notable contradictions, in that, redistributive and

Table 4 - Inflationary Contributions by Production Cost Variations  
(By Inflation Points)

	(1)	(2)	(3)	(4)
1974	29,1	8,7	3,1	37,8
1975	4,9	12,9	6,5	17,8
1976	13,1	4,4	1,9	17,5
1977	10,5	6,8	3,9	17,3
1978	4,4	5,1	3,4	9,5
1979	10,9	4,0	2,6	15,0
1980	16,0	5,8	3,7	21,8
1981	18,2	6,1	3,9	24,2

	(5)
1974	76,9
1975	27,4
1976	74,9
1977	60,5
1978	46,0
1979	73,0
1980	73,4
1981	73,0

Source: Compilations by IRES-CGIL based on figures by Banca d'Italia.

Key:

1. Inputs [Other Than Labor].
2. Cost of Labor.
3. Cost-of-Living Component [of Labor Cost].
4. Total Costs.
5. By Percentages.

fiscal flows are highly sensitive to retrenchments and to the rescaling of the employment base, and tend to seek compensation by way of fiscal pressures on the employed workers, which drastically reduces pay increments.

Based on these brief considerations, it appears to me to emerge, more than ever as facts than as subjective views, that the choice of growth and the choice of distribution or redistribution are parts of a single entity and not separable entities that can be exchanged, one for the other, in an income-for-employment trade-off.

#### Demands of Labor Unions Studied for Common Rationale

Rome POLITICA ED ECONOMIA in Italian Jul-Aug 82 pp 23-25

[Article by Marco Merlini: "Platforms: What and When"]

[Text] Like Godot, these contracts seem never to arrive... and meanwhile, wage indexation has been terminated. The mass media--also because a deluge of political science as applied to the labor union movement is spreading all over the country--deliver us almost a daily bulletin: They are negotiating, they are not negotiating, this could be negotiated, that one doesn't want to negotiate, this other one must negotiate. In this round of contract negotiations, which seems to be proceeding under a low profile, what is pointedly lacking is information as to what exactly the labor union movement is actually demanding. In the current difficulty-ridden situation, however, and because never before has the labor movement set "its heart on platforms" to the extent it is set today, let us try to map out a rationale underlying its demands.

#### The Workweek

Its demands relating to the workweek surely embody the pivotal issue around which its platforms revolve. These demands can be grouped under three major objective-headings: A general shortening of the workweek without loss of pay; a greater shortening of it for certain categories of workers; and the introduction and contracting of new ways of distributing working times.

a) On the first of these points, the Italian labor movement appears to be decidedly in lockstep with the European ones seeking attainment of a 35-hour week within a matter of a few years. On the other hand, it is already abundantly clear that labor's demands for a reduced workweek will be the thorniest of the issues to be negotiated with the employers.

Aware, however, of the practicability of achieving this objective in steps over the 3-year period of their next contracts, the public health services workers are demanding 36 hours; bank workers 37 hours; the metalworkers, construction, textile and commercial workers 37 and 1/2 hours; publishing and graphic arts, public transport, electrical industry and papermaking industry workers 38 hours; farm workers 39; and the chemical industry workers a reduction of 2 hours. The typographers, however, have obtained a 35-hour workweek in the first major negotiation to have come to an end.

b) As regards shift workers, continuous-cycle production workers, and workers in unhealthful, uncomfortable or night jobs, a further whittling down of the workweek is being demanded, which in some cases will mean chipping away at the 35-hour level.

c) All the platforms devote space to the seeking of standard working models for the introduction of new systems of working hours for particular sectors of workers: part-time, flexible hours, sabbaticals (individual unpaid leaves of absence of up to 1 year).

The terms and conditions for the shortening of the workweek are to be worked out and agreed at the enterprise level (and, solely in the case of the textile industry, at the nationwide level). This involves an important decision, not only because it restores enterprise-level contracting as the ad hoc means of revising the system of working hours, but also because it is the result of a significant departure from union demand strategy: The working hours of the individual worker are made totally independent of the working hours of installations. The reduction of working time must be definite, ratified by a nationwide contract, but must also be accompanied by provisions for greater utilization of the availability of the productive structures, first of all by way of a negotiated enhancement of flexibility in the utilization of available working hours (Saturday hours, overtime, etc), but also, where possible, through the adoption of new forms of work management and organization. The introduction of elasticity factors should guarantee: The adaptability of production to changes in marketing demand; increases in productivity; and growth of employment.

The labor movement as a whole has thus opted for an approach that has already been experienced in part by the textile workers in their negotiating round and that--as a recent study by the Seveso Foundation has shown--has resulted in an advantage and a disadvantage. The advantage: The adherence of the change in working-hour systems to the individual productive requirements of each enterprise. The disadvantage: The nonapplication of the shortened workweek in some of the enterprises. Totally ineffective, on the other hand--hence not proposed again--is the solution that has been tried in the past by the metalworkers: The subjecting of an annual shortening of the 40-hour week to increases in productivity; this clause was in fact the cloak of justification used by the FEDERMECCANICA [expansion unknown] to disregard in all enterprises the shortening of the workweek that had been agreed on a nationwide scale.

The quantum of the workweek shortening and the forms of control over a more flexible utilization of it were the points of greatest friction within the labor movement when it came to putting together platforms; a rekindling of the polemics is therefore easily foreseeable with the coming of the crucial moment in the forthcoming negotiations: The moment of give and take opposite the management of the enterprise.

#### Wages

Wage demands contain no surprises versus expectations. In keeping with labor's acceptance of the 16-percent ceiling as a matter of policy rather than one of

accounting, its objective is to recover that part of purchasing power not covered by wage indexation and hence eroded by inflation. Wage rise demands therefore range, on average, between 80,000 and 100,000 lire, and the condition for not revising them is that the cost-of-living allowance must continue to operate normally. On the other hand, and generally speaking, the incremental income to be produced by the projected increases in productivity is being assigned to the shortening of the workweek and other negotiating objectives.

But even in the wage sector there is an important innovation--one that has been the subject of critical comment in more than one large enterprise: An effort to widen the differences between wage levels through the proposed differentiation of increases. Some examples of the spread between requested increases: From 68,000 lire (for the second category) to 138,000 lire (for the seventh) in the case of the metalworkers; from 55,000 to 140,000 lire for the textile and footwear industry workers; from 100,000 to 271,000 for the construction workers; from 37,000 to 104,000 lire for the day-laborers; from 50,000 to 113,000 lire for the transport workers; from 50,000 to 185,000 lire for the graphic arts and publish-industry workers; and from 90,000 to 230,000 lire for the bank workers.

In the case of the day-laborers, we wish to underscore also the effort to transform the entire remunerative structure by the substitution of a nationwide base wage in place of the old minimum wage level: The national contract will establish a true national wage base parameterized according to skills and cost of living, and to be supplemented by contracts at the provincial and enterprise levels. The separation of the various negotiating levels is thus the approach to finally converting, in the agricultural sector as well, the still current "pact" into a "contract."

#### A Single Bargaining Unit

Owing also to the change in functions being brought about by the restructuring currently under way, the idea of a single bargaining unit is, in the opinion of almost everyone, being put to bed, even though, and we say this in passing, too often it is more to our liking to forget that some categories of workers--like the day-laborers--not only have not the slightest notion as to what is involved in an interaffiliation between blue-collar and white-collar workers, but are only now setting out to bring into being at least the near-term prospect of a single bargaining unit for blue-collar and white-collar workers and to overcome immediately their CGIL and UIL [Italian Union of Labor] exclusion from the negotiations for the contract concerning the white-collar workers.

The choice embodied in most of the platforms is that of confirming the present system of separate bargaining units as currently organized, both as to numbers of worker categories identified (except for some cases, which we shall see later, of creation of a new level specifically for supervisory staff and technicians) and as to occupational designations specified. As regards the latter, however, note must be taken of exceptions in the cases of the graphic arts and publishing industry workers, who have decided to redefine job specifications where technological modernization is involved; the banking industry workers, who are engaged

not only in a clarification of job specifications but also in the creation of a single contract bargaining unit that includes also the more highly skilled clerical functions; and the public health workers, who are working on the definition of new occupational designations.

The common denominator on this contractual count is rather that of revitalizing the **single-bargaining-unit** dynamic from within. This objective is being approached along four axes: An increase in the size of the steps in the pay scale through differentiated pay increases; the opening of new spaces at the upper levels of the bargaining unit; an upward displacement of the blue-collar/white-collar interaffiliation (the super-fifth metalworkers wage level, for example, is being transformed into a real blue-collar/white-collar interaffiliated job category, the job outline and specifications of which are being re-defined); and the speeding up of displacements from the lower levels to the higher ones.

With the loosening of the links within the single bargaining unit, the wage spread will be reaching ratios of 100/190-200, widening out to 100/250 in the case of the chemical workers. The labor movement has therefore begun to address the problem of balancing the leveling effects brought about by four equalizing contractual counts, the unicity of the cost-of-living allowance point, and the fiscal drag. On the other hand, however, it is not even touching upon the logic of privileging automatic promotions to the higher job levels, which contradicts the demand of reward for quality of job performance; to say nothing of a logic that at times somewhat perplexes us, like that of the FLM [Federation of Metalworkers], which favors the promotion of "productive" blue-collar workers from the second to the third level in 18 months, and of the "nonproductive" ones in 36 months.

As to the future of the single bargaining unit, the line of advance, which is not always clearly indicated, appears to us to be as follows: Postpone to a future enterprise-level negotiation the definition of the new occupational profiles that are being produced by the changes currently taking place in the labor relations process and, of course, by the introduction of new work organizational forms centered on the principle of collective labor bargaining; then, after an experimental period of 3 years, bring the results obtained, category by category, into a nationwide revision of the bargaining unit systems.

#### Supervisory Staff and Technicians

This is the first time in the history of Italian collective bargaining that demands are being made by the labor unions on behalf of this major working sector. It is no coincidence that the demands advanced by the various job categories have been so variegated; they are, however, classifiable under three main lines of approach:

a) The first, which is being followed, for example, by the textile and chemical workers, has to do with the creation of an outright "area for supervisory staff, white-collar employees and technicians": A specific sector of the platforms to



be charged with putting together their specific demands as regards wages, working conditions and norms, also including as their own some of the demands of the supervisory workers associations. Following are their demands that appear to us the most significant:

--Wage increase differentials and provisions for career advancement reserved exclusively to these occupational designations;

--Overtime pay and contractual creation of specific wage components tied to the functions actually performed;

--The right to advance information on technological or organizational changes involving them;

--Periodic updating courses of study on paid time;

--Particularized norms with respect to working hours.

b) The second line of approach (construction, papermaking and commercial workers) aims above all at obtaining now and all at once, in the national-level negotiation, at the summit of its occupational scale and uncoupled from the blue-collar scale, a new echelon that recognizes a specific status for supervisory and technical staffs that is a function of their technico-productive specialization.

c) [As to the third line]: The metalworkers, on the other hand, have decided to wait until the enterprise-level negotiations--that is, until after the signing of the national-level contract--to press for the introduction of a new wage scale for supervisory levels, in a factory by factory drive not only for recognition of the higher occupational designations but also for a revision of the wage-scale criteria to be applied to all the workers.

#### Right To Information

The right to information has been one of labor's warhorses in past negotiations and one of the conquests it has least used, owing in part to labor's inability to sift out the information thus obtained. Obviously, therefore, what is involved on this count is more a shakedown and consolidation of the count already acquired than a real advance in itself.

Labor's approaches can be boiled down to three objectives:

a) The first is a tightening up and systematization of the implementation of the rights already gained in past negotiations. Emblematic is the case of the day-laborers, who are demanding full operation of the inter-union committees that are set up to track industrial transformations and developments.

b) The second objective is the itemization of the possible coverage provided by this right, as regards:



--Entities required to make information available: Enterprises, groups and consortiums with respect to the construction workers; multinational firms with respect to the metalworkers; a lowering of the lower limit agreed heretofore (enterprises with 150 workers) with respect to the textile workers;

--Kinds of information to be provided: At the enterprise level, for example, information on the applications for public financing and/or other credit facilities, on job movements and new hirings, on in-house crises, on balance sheets and multiyear plans...

c) And last, the chemical workers appear to be seeking a contractual enlargement of rights to information, through the instituting, at the enterprise and national levels, of an information-bargaining-implementation-verification chain.

#### Real Impact of Farm Labor Costs

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[Article by Angelo Lana: "Wages and Contracting in Agriculture"]

[Text] From an examination of the problems of farm labor costs and the union platform for the renewal of the farm workers national labor contract, the Executive Committee of the CONFAGRICOLTURA has drawn two conclusions:

--One is of a general order, finding in the cost of labor /the [in italics]/ limiting factor on agricultural employment and on development of the sector;

--The other, relative to the platform, finds it in contradiction with the goal of holding the rise in cost of labor in 1982 within the planned ceiling of 16 percent, in that the demands contained in the platform would result in an increase of 36 percent.

Our intent in this article is to examine the grounds for these positions. We will examine first the question of the cost of labor, of its dynamic, and of its impact on the growth of production, on employment and on the distribution of farm income; then we will examine the question of the increase in cost of labor that would result from the platform for the national contract. Our examination will proceed on the basis of an assumption, which is untrue, that contractual violations are nonexistent, they actually being, however, particularly widespread and grass throughout much of the seasonal farm labor sector.<sup>1</sup> Our intent in fact is to show that the employers' findings with respect to the socially defined level of the cost of the labor force are unfounded.

#### 1. On the Problem of the Cost of Farm Labor

The position of the CONFAGRICOLTURA is that farm wages have gradually absorbed a bigger and bigger share of the real income produced and that they have done so in accordance with a dynamic that has stifled profits, investments and employment. This position must therefore be analyzed from the standpoint of the overall trend of the sector's economic aggregates and from that of the unitary trends of its different variables.

a) Distribution of the real farm product among wages, profits and farm workers income: The figures given in Table 1, all at constant 1970 prices, will support the following considerations:

--The gross farm product in real terms, that is, the real wealth produced by the sector "at market prices" and inclusive of the "contributions to production," after the 1976 slump, rose sharply in the years that followed and at sustained percentage growth rates (+3.4; +4.7; +6.1; +5.4) until it plunged again to -2.9 percent [as published] in 1981. Between the two reference years, 1974-1981, the real wealth of the sector rose 908 billion lire, that is, 17.1 percent;

--The total annual wage of the farm workers, inclusive of social charges payable by the employers--in reality, therefore, the total cost of labor--registered trends all marked by an expansive phase which, very sustained during the 1975-1977 triennium (+7.0; +7.3; 7.8), slowed sharply in the following 3 years (+3.1; +1.5; +1.0), then changed sign in 1981 with a contraction to -0.6 percent. Overall, between 1974 and 1981, total wages registered a real increase of 477 billion lire, or 30 percent.

This increase, 24 of its percentage points being concentrated in the 1975-1977 triennium, had a dual origin: The wage recovery stemming from the national pact of 11 October 1974 and the provincial-level contracts of 1975 and 1976, which brought about a partial rectification of a depressed and glaring situation of inequality with respect to that of industrial workers, and a unification of the agricultural sector's cost-of-living allowance system with that of the other sectors through an escalation process that increased the monthly value of the index point from 702 lire in 1975 (in 1973 it was still 364 lire) to 2,389 lire beginning 1 February 1977.

If as the total annual wage we were to consider only gross pay (not including, that is, the social charges payable by the employers), its increase, from this viewpoint, would have been from 1,522.6 billion lire in 1974 to 1,875.8 billion lire in 1981, an increment of 353.3 billion, or 23.2 percent. This is because, during these years, the outlay for social charges has increased considerably, even though the relative contributions have remained well below those of the industrial sector where the state moreover intervenes with massive general-tax-support operations. Lastly, it is pointed out that this value still does not measure the net remuneration perceived by the workers, since it is inclusive of the contributions payable by them and of the tax withholdings from their wages;

--The share of the wealth that goes to profits and to the remuneration of the small farmer, also in real terms, follows the same trend as the gross product, but with greater accentuation of rates respectively. Thus, after the 1976 slump (-13.7 percent) and the virtual standstill of 1977 (+0.6 percent), there were growth increases of 5.3 percent in 1978, 10.5 in 1979 and 9.6 in 1980, until a new decline to -4.8 percent in 1981.

From 1974 to 1981, profits and small farmer income grew in real terms by 318 billion lire, that is, by 10.2 percent.

Thus, during those years, the distribution of the sector's real wealth among wages, profits and small-farmer incomes does appear to have changed consistently and in favor of wages. Indeed, the share of the gross product going to wages increased from 29.8 percent in 1974 to 33.2 percent in 1981. That going to profits and small-farmer incomes, on the other hand declined from 58.4 percent in 1974 to 55 percent in 1981.

From these variations, the CONFAGRICOLTURA finds it reasonable to conclude that the redistribution of income that has taken place in favor of employed workers has resulted not only an unbearable burden on the profit and loss sheets of enterprises but also the principal cause of their crisis.

CONFAGRICOLTURA's reasoning, however, is erroneous and its conclusion mystifying. During the years under consideration, in fact, as can be seen from Table 2, the proportion of employed workers in the sector's total employment gradually increased from 33.4 percent in 1970 [as published] to 39 percent in 1981. The area of capital-generated production expanded and the relative weight of employee labor in the creation of farm income increased in accordance with the indexes defined by the change in the sector's employment structure.

The increase in the relative share of the wealth that went to employed labor incomes was, in fact, also a consequence of the increase in the ratio of labor employment to the sector's total employment. It is necessary, therefore, to eliminate the influence of this factor to restore a corrected value to the redistribution that actually took place during those years. To do this, and calculating the variates in this case in terms of constant 1970 prices, we will adopt an employee-labor normalization coefficient<sup>2</sup> taken as the ratio between the share of total agricultural employment occupied by employed labor in 1970 and that gradually determined over the succeeding years. The variates of this coefficient are given in Table 1.

Multiplying the total wage in each of the years by the employment normalization coefficient, we find that the real ratio of income going to employed labor increased, through the annual variations shown in the table, from 26.6 percent in 1974 to 28.4 percent in 1981, a net rise of 1.8 percent.

Owing to the shortcomings of the criteria and of the systems used officially for the compilation of statistical data, it is not possible to differentiate the portion of income consisting of profits and the "return on land" \* from the portion consisting of small-farmer income. This is a serious deficiency that needs correction and which research and study organizations have tried to make up for in part by means of specific analyses by types of enterprises, sectors and territories.

What is certain, based on such analyses as well, is that during the years being considered there has been a steady growth in the share of the gross agricultural product that is attributable to capital-oriented enterprises as such or as actually result from capital-oriented relationships of a new and variegated phenomenology and uncertain transparency (spurious copartnerships, seasonal leases, etc).

\* [Italian term "rendita fondiaria" defines added profit to owners of fertile land owing to farm prices being based on yields from the poorer terrains].

Table 1 - Behavior of Principal Overall Production and Income Aggregates in Agriculture  
(Values at 1970 Prices)

	(A)		(B)		(C)			(F)		
	(G)	(H)	(G)	(H)	(G)	(H)	(D)	(E)	(G)	(H)
1974	7.053		5.319		1.588		0.890	26.6	3.109	
1975	7.347	+4.2	5.387	+5.0	1.670	+7.0	0.900	27.4	3.250	+4.5
1976	7.110	-3.2	5.276	-5.6	1.824	+7.3	0.878	30.3	2.803	-13.7
1977	7.410	-4.2	5.453	+3.4	1.566	+7.8	0.869	31.3	2.820	+0.6
1978	7.797	-5.2	5.709	+4.7	2.027	+3.1	0.878	31.1	2.970	+5.3
1979	8.278	-6.2	6.059	+6.1	2.058	+1.5	0.869	29.5	3.282	+10.5
1980	8.682	-4.9	6.412	+5.4	2.078	+1.0	0.858	27.8	3.598	+9.6
1981	8.444	-2.7	6.227	-2.9	2.063	-0.6	0.856	28.4	3.426	-4.8

Sources: "INEA Agricultural Annual" and "General Report On Economic Situation of the Nation."

**Key:**

- A. Marketable Gross Production.<sup>1)</sup>  
 B. Gross Product.<sup>1)</sup>  
 C. Total Wage.<sup>2)</sup>  
 D. Employment Normalization Coefficient K.  
 E. Total Wage's Real Share of Gross Product.  
 F. Profits and Small-Farm Income.  
 G. Absolute Value.  
 H. Percent.

- 1) Marketable Gross Production and Gross Product are "at market prices" and inclusive of "contributions to production."
- 2) Total Wage is sum of gross remuneration and social charges payable by employer. Monetary amounts have been deflated for each year using the relative cost-of-living increase index (ISTAT).

[Footnotes to Table 2]:

- 1) Employment figures, from ISiAT sources, represent full annual employment units and were obtained by reappportioning day-to-day and seasonal labor accordingly.
- 2) Productivity figures shown were calculated by dividing the gross product inclusive of contributions to production--at constant 1970 prices--by the total full annual employment units (employee and self-employed).
3. Farm workers unitary real wage was calculated by dividing the total deflated annual wage at 1970 prices, by the total number of employee farm workers reapportioned as full annual employment units. Unitary gross remuneration was similarly calculated, subtracting from the total wage the social charges payable by the employer.
- 4) This theoretical value, the utility of which is discussed in the text, was also calculated with the criterion used for the farm workers annual real annual wage as a basis.

Table 2 - Behavior of Employment, Labor Productivity, Unitary Real Wage, Real Profits and Unitary Real Income from Self-Employment in Agriculture (Values at 1970 Prices)

	(A)		(B)		(C)		(D)		(E)		(F)	
	(G)	(I)	(G)	(I)	(H)	(I)	(H)	(I)	(H)	(I)	(H)	(I)
1974	3,174		1,189		1,676		1,336		1,281		1,566	
1975	3,047	-4.0	1,130	-5.8	1,834	+9.4	1,504	+12.6	1,443	+12.6	1,695	+ 8.3
1976	3,020	-0.8	1,147	+1.5	1,747	-4.7	1,590	+ 5.7	1,517	+ 5.1	1,497	-11.7
1977	2,950	-2.3	1,134	-1.6	1,849	+5.8	1,734	+ 9.0	1,645	+ 8.4	1,553	+ 3.8
1978	2,919	-1.1	1,108	-2.3	1,956	+5.8	1,829	+ 5.5	1,672	+ 1.7	1,640	+ 5.6
1979	2,840	-2.7	1,090	-2.5	2,134	+9.1	1,888	+ 3.2	1,727	+ 3.2	1,876	+17.6
1980	2,760	-2.8	1,075	-1.4	2,323	+8.9	1,933	+ 2.4	1,765	+ 2.2	2,136	-13.9
1981	2,655	-3.8	1,035	-3.7	2,345	+1.0	1,995	+ 3.2	1,812	+ 2.7	2,115	- 0.9

Key:

- A. Total Employed.<sup>1)</sup>
- B. Employee Workers.<sup>1)</sup>
- C. Labor Productivity.<sup>2)</sup>
- D. Unitary Real Wage.<sup>3)</sup>
- E. Unitary Gross Real Remuneration.<sup>3)</sup>
- F. Profits and Unitary Small-Farm Income.<sup>4)</sup>
- G. Thousands.
- H. Thousands of 1970 Lire.
- I. Percent

[See footnotes on facing page]

When to the relative weakness of the position occupied in the income spectrum by the small-farmer sector (or by a very large part of it), as seen through this reasoning process, we add the fact that the share of the gross product that has gone into wages has grown by only 1.8 percent, the conclusion we are compelled to draw is an entirely opposite one from that of the CONFAGRICOLTURA: Not only has the real-wage dynamic not tapped into the share of the wealth going into profits, but during the years being considered the real total of farm profit has grown progressively and at rates exceeding those registered by the movement of the overall "profits and small-farmer income" aggregate.

b) The relationships between growth of unitary wage, growth of productivity and flow of employment: The second of the theses implicit in the positions taken by the CONFAGRICOLTURA on the cost of labor, when it maintains that the latter represents "the limiting factor on farm employment and on the development of the sector," can be explicated as follows: The rate of growth of wages has so greatly exceeded that of employee-labor productivity as to absorb, wholly or in large part, the profits of enterprises, rendering impossible not only the development but the very continuation of investments.

The premise is false, and to show this it suffices to examine the flow of the unitary growth rates of real wages, productivity and aggregated "profits and small-farm incomes," taking into account that the reapportionment of agricultural employment (employees and self-employed) in terms of full annual labor units worked out by the ISTAT [Central Statistics Institute] enables improvements in the calculation and evaluation of these variates. The figures to which we will refer are those in Table 2.

--The flow of employment during these years is nevertheless the first of the factors we consider it interesting to analyze. From 1974 to 1981, the sector's "fully" employed declined by 519,000 units, that is, by 16.3 percent, or to the point where in 1981 they represented 12.8 percent of all employed workers nationwide and 11.7 percent of the total labor force.

The drop in employment includes self-employed workers (-365,000) as well as employee workers (-154,000) and hence at rates that, in accordance with a trend that has continued from preceding years, show a progressive growth in the employee-labor factor, confirming explicitly the expansion of the capital-oriented sector of agriculture, without, moreover, underestimating the resorting by the small-farmer enterprises to paid farmhand labor, which is also growing.

--The rate of growth of the unitary wage and the rate of increase of labor productivity, when compared to one another, provide significant analytical elements. Labor productivity (gross product at constant prices per "full" unit of employment), 1976 excluded, rose constantly and at quite high rates for some years (+9.4 percent in 1975, +9.1 percent in 1979, +8.9 percent in 1980) that were not equaled by the industrial sector as a whole. Banca d'Italia's report shows that between 1970 and 1981, taking 100 as the ratio among productivities in 1970, the rise in average productivity in the agricultural sector exceeded that in all the other sectors by more than 30 points for that decennium.



A constant trend toward growth is evidenced by the unitary real-wage rate flow (total annual wage, inclusive of social charges, divided by the "full" employment units), even under the influence of a dynamic in sharp decline from time to time. This flow, in fact, ranged from a maximum 1975 peak of 12.6 percent to values for the past 3 years that oscillated between 2 and 3 percent. If the unitary wage is taken minus the social charges payable by the employer, not only its absolute value has diminished, for reasons already stated, but also its annual rate of increase.

The reason for this flow of the remunerative dynamic stems from the fact that the increases that took place around the middle of the 1970's operated against very low initial wage levels both as to absolute value and by comparison with the industrial sectors. For this reason, from 1975 to 1977 the rate of rise of the unitary real wage exceeded that of mean productivity. This comparison shows quite a different behavior during the 1978-1980 triennium when, as can be seen from Table 2, a drastic redimensioning of the real-wage dynamic was accompanied by a sharp rise in productivity. Not until 1981, as a result of a serious recessionary drop in production, did the remunerational dynamic again exceed, although not by much, the productivity dynamic.

A comparison of these behaviors yields several findings: In the first place, that the wage policy and that of the equalization of different sectors which the labor unions followed during these years has produced a sustained growth of real remuneration of the farm workers that has in part rectified an intolerable wage situation, even though it has not yet closed the average-remuneration gap with respect to industry (still 1,350,000 lire annually in 1981); in the second place, that labor productivity increased sharply and at double the rates of the unitary wage from 1977 to 1981 (+24.8 percent and +14.3 percent, respectively), that is, precisely during the years in which the CONFAGRICOLTURA maintains that increases in real wages had nullified the profits of enterprises.

These findings would be more than ample in themselves. If one considers further, however, that the specific productivity of the capital-oriented sector (hence that of employee labor alone) exceeded by far that of the agricultural system as a whole, the conclusion to be drawn is that the growth in employee labor productivity still exceeded that of real remuneration and therefore that not only was there not any shrinkage of profits as a result of labor costs but that, on the contrary, there was a substantial increase in the rate and amount of profits.

--The latter evaluation is further confirmed by an examination of the values obtained by dividing the sum of profits and small-farmer income by the number of self-employed workers in agriculture (still reapportioned as "full" units). The result is a purely theoretical, though not arbitrary, index, in that it is significant of the dynamic of the unitary incomes of the enterprises and of the self-employed workers.

The rate of growth of this variate over the last 4 years, and despite the 1981 slump owing to the recessionary drop in production, greatly exceeded that of the

sector's general production (+36.2 percent and +24.8 percent, respectively). This shows once again that a substantial part of the additional real wealth produced by employee labor went into increased profits and incomes of enterprises, enlarging their due share of the wealth.

For reasons already pointed out, an analytical quantification of this process cannot be arrived at on a national scale. It is possible, however--and to sum up this aspect of the questions raised by CONFAGRICOLTURA--to conclude that, because of the weakness of small-farmer enterprise as a whole as compared with capital-oriented enterprise (owing to structural conditions, the use of public support measures, and the incorporation of technologies), the rate of increase of the profits of the capital-oriented enterprises unquestionably exceeds by far that registered for the aggregate total of the unitary incomes of enterprises and self-employed workers.

## 2. On Labor-Cost Increase Owing to the National Contract Platform

The terms of reference and analytical criteria on which CONFAGRICOLTURA has based its quantification of the cost of this platform have not been given. The only bit of information in our possession consists of the final result: A sole finding that for 1982 the cost of labor will increase by 36 percent over 1981. This is the figure we will now examine, using a method recently proposed by the IRES-CGIL<sup>3</sup> and considering all the factors (contractual and noncontractual) affecting the cost of labor in the agricultural sector.

The analytical discriminant for this purpose will be the labor movement's decision to maintain, for 1982, the mean dynamic of the cost of labor per unit product within the ceiling of 16 percent. To examine the degree to which the farm workers' contractual demands conform to this decision, we will take as a basis industry's annual mean gross wage for 1981, estimated by the ISCO [semi-official economic forecasting institute] at 11,990 lire. The validity of this choice is borne out by the fact that the general approach of the CGIL-ICFTU-UIL Federation on the evolution of the cost of labor positions the latter's dynamic not by individual sections and categories, but within the framework of a policy of progressive alignment of wages according to occupational homogeneities and along a line of defense and expansion of employment. The following considerations, furthermore, do not change, as we shall also show, if one takes as a basis the agricultural sector's annual mean gross wage for 1981, estimated at 10,640 lire annualized.

The measurement of the wage increase that is equivalent to an increase of not more than 16 percent in the cost of labor per unit product must take into account also the reductions in the cost of labor per unit product resulting from increases in productivity and from measures providing general-tax support for social charges.

As regards productivity, we will consider not all of its planned growth but rather only an increment of 3.8 percent, which is half that registered on an annual basis during the effectiveness of the preceding contract with respect

to the 1976-1978 triennium. The increment calculated in this manner is moreover an average figure for the entire sector, representative only in the absence of the considerably higher growth rates registered by the specific productivity of employee labor. As regards general-tax support for social charges, on the other hand, Law 54 of 26 February 1982 has extended this principle to the agricultural sector as well. The resultant reduction for 1981 totals 26 billion lire, the equivalent of a reduction of 0.30 percent in the cost of labor per unit product.

The comprehensive wage variate of 20.1 percent thus obtained defines the rise of the mean wage (or of the costs connected to the sum of the demands) corresponding to an increase of 16 percent in the cost of labor per unit product in 1982.

Now let us consider the impact on that variate for 1982 of the several components of the cost of labor:

a) Cost-of-Living Allowance: The 45 points (9-12-12-12) planned for 1982 for an annual inflation rate of 16 percent represent an increase of 795,000 lire, equal to 6.6 percent of the 1981 wage base (7.5 percent if referred to the category wage base). The 1981 cost-of-living allowance carryover into 1982 amounts to 542,000 lire, or 4.5 percent (5.1 percent if referred to the category wage base). The total cost-of-living allowance would thus result in a wage increase of 11.1 percent (12.6 percent if referred to the category wage base) with a gross coverage degree of 69.4 percent (78.8 percent for the category wage base).

The remainder available for all the other cost components, therefore, comes to 9.0 percent (7.5 percent for the category wage base). Since there are no contractual costs stemming from already agreed counts entering into effect in 1982, the following new costs are attributable to the demands contained in the platform.

b) Wage Increases and Reparametrization: Given the spread of the category over the various skills, it can be shown valid that the four packages of economic improvements, inclusive of the upward parametrization of skills and to be granted to all the workers (37,000 lire per month to the unskilled laborer; 70,000 per month to the skilled laborer; 82,000 per month to the specialized worker; and 104,000 per month to the supervisory worker), will come to a mean cost of 60,000 lire per month for the entire category, or (14 monthly paychecks) 840,000 lire per annum. Its impact on the 1981 wage base is 7.0 percent (7.9 percent referred to the category wage base).

c) Shortening of the Workweek: The reduction of 1 hour per week (1/40), although the platform does not explicate its implementation in 1982, has an impact of 2.5 percent.

d) Longevity Pay Increments: The recalculation of longevity pay on the new wages, assuming a mean longevity of 10 years for the entire category, involves an average cost of 30,000 lire per annum, or 0.25 percent of the 1981 mean wage (0.30 referred to the category wage base).

e) Increase in Contributions for Social Charges: Law 54 of 26 February 1982, which provides parity of social security benefits for day-to-day laborers, establishes that contributions applicable to these laborers shall henceforth be calculated on the basis of the contractual wage and not on the national conventional wage. Based on the reference criteria stipulated in the minister of labor's implementing decree, the impact is equal to 0.30 percent.

f) Severance Pay: Apart from all considerations of the fact that actual cash outpayments are one thing and accounting reserves quite a different one, account must be taken in this respect that the new law which regulates the treatment of severance pay involves, for 1982, an increase of 0.33 percent in the cost of labor.

A wage variate of 20.1 percent, corresponding to an increase of not more than 16 percent in the cost of labor per unit product, would, on the unlikely assumption that all the demands embodied in the platform would be implemented in 1982, that is, with no echeloning, result in an increase of 21.5 percent in the cost of agricultural labor (23.9 percent referred to the category wage base).

With the contract running from 1 April, however, all the increased labor costs--except the cost of living allowance and the social security charges--will run for only 3/4 of the year, with a consequent reduction of their impact from 9.7 percent to 7.3 percent (from 10.7 percent to 8.0 percent referred to category wage base).

Cost-of-living allowance, contractual demands, severance pay and increased social security charges all add up, therefore, to an actual 1982 monetary labor cost increase of 19.7 percent (21.2 percent referred to category wage base), corresponding to an increase in the cost of labor per unit product not of 16 percent but of 15 percent (16.9 percent referred to category wage base).

3. Conclusions: What we have developed thus far in this analysis appears to us sufficient to show the unfoundedness of CONFAGRICOLTURA's findings with respect to the cost of the platform as well as its finding that wages have been absorbing a greater and greater share of the real income produced in the sector, reducing profit margins to zero.

It is equally clear, however, that in respect to farm incomes (and particularly small-farm incomes) there are problems--serious ones--and these are reflected heavily in the enterprise profit and loss sheets. Especially during periods of high inflation, businessmen--farming and nonfarming--measure (and must measure) their incentives and the results of the management of their enterprises not in real terms but in monetary ones, taking into account, therefore, inflation. Inflation is similarly taken into account by the employed workers--farming and nonfarming--bearing in mind, from the standpoint of their wage demands, their own real income (that which actually measures their buying power) and the minimal objective of safeguarding it with respect to the cost-of-living dynamic and, commensurate with the various phases of national economic growth, of improving it.

It is this position, applied to the particularities of the current phase, that justifies, as an objective, the containment of the cost of labor per unit product in 1982 to a ceiling of 16 percent. And it is to this end that the farm workers are also addressing their contractual demands.

For agriculture, however, unlike for the other sectors, a specific problem has for the last several years been taking on more and more significance: Prices at the origin of farm products have risen at a slower rate than the prices of the products and services produced by the other sectors, at a slower rate than the growth of annual inflation, and at a slower rate, therefore, than the rate at which farm laborers' unitary wages have increased. Thus, the ratio between the implicit prices of the value added to the cost of the production factors in agriculture and those in the other sectors, still par in 1974, declined progressively, dropping 5 points through 1978, then all of 17.9 points over the next 3 years. In 1981, although prices at the origin of farm products rose more than they had in 1980 (16 percent versus 14.1 percent), there was a further widening of the gap with a rise of 19.6 percent in the cost of capital goods and of 23.7 percent in the cost of acquisition of the raw materials going into the farm productive process. The rate of rise of the implicit prices of farming added value thus did not exceed 10 percent in 1981, while the rise was 14.7 percent in industry and 18 percent in marketable services.

The dynamic was less negative than in preceding years, and CONFAGRICOLTURA itself admits that in 1981 the costs-revenues squeeze lessened.<sup>4</sup> Indications thus far point to a further lessening of the squeeze in 1982.

Despite this partial correction of trend, however, there remains wide open for agriculture a serious problem of realignment of prices and intersectoral incomes that demands urgent solutions, not quick fixes, but solutions that will further the advance of a real anti-inflationary and antirecessionary policy.

This problem presents different aspects and different degrees of depth from one sector to another and from one type of Italian farming enterprise to another. Also in this case--and the the study carried out by the FEDERBRACCIANTI [Italian Farm Laborers Federation] and the IRES of Lombardy<sup>5</sup>, for example, helps us understand how--despite the processes referred to above, the incomes and operating profits of the capital-oriented zootechnical enterprises have risen sharply during these years and at current prices. This has evidently not been so for the majority of the small-farm enterprises or even other productive sectors.

Contrary to CONFAGRICOLTURA's contention, wages and cost of labor have not had and do not now have any impact on the development of this problem, since the quantity of goods going into the remuneration of the labor force has risen by 5 percent in the last 4 years, that is, with a dynamic inferior by far than that (+21.5 percent) of the quantity of goods which, after subtracting the constant capital consumed in the productive cycle, has gone into the constituting of operating profits (growth of productivity has exceeded that of wages).



Examination of the wage dynamic, total as well as unitary, as compared with that of gross product, yields no mechanical correlation whatever among the various dynamics. During years in which wage totals and rates have registered sustained growth, production has manifested expansionary or recessionary phases; whereas, during years of substantial containment of wage totals and rates, such as the last 4 years, production has oscillated between sharp expansionary and deep recessionary phases.

The contractual wage increases negotiated during the mid-1970's, after a lengthy phase of heavy shrinkage, served to bring the real share of the wealth going to employee back up to levels close to those attained around the middle of the 1950's. The unification of the cost-of-living allowance systems beginning 1 February 1977, together with limited contractual wage increases, while they produced a partial recovery of the real wage in agriculture with respect to industry, did not, however, prevent a drop in the share of real income going to employee labor from 31.3 percent in 1977 to 28.4 percent in 1981.

From these dynamics, on the other hand, one finds that the reduction in the sum of profits and small-farm income, each time it has occurred, has been directly connected to years of recessionary drops in production; whereas, in general, limited rates of growth of large-enterprise incomes in agriculture are directly related to a constantly unfavorable terms-of-trade dynamic in farm products. Heavily impacting enterprise incomes and employment, however, is also the cyclical behavior of a system that does not expand but rather shrinks its productive base.

The problems needing to be addressed are therefore problems of overall economic policy. Insofar as concerns the issues examined herein, one finds a further confirmation of the dangerous arbitrariness of the effort being deployed by CONFAGRICOLTURA to cut back the real wage by way firstly of voiding the cost-of-living pact, and of the correctness of the labor movement's effort to contain the cost-of-labor dynamic within the 16-percent ceiling. In other phases of the history of social relations in the farming sector, the landowners have succeeded in lowering the real wages of the farm workers for years on end, continuing into this second postwar period until 1967. An operation of this type, such as CONFAGRICOLTURA may be seeking to institute also through the reintroduction of a separate cost-of-living system into the sector, is today totally impracticable.

The point is that, during these years, the goods produced in agriculture have, in the general process of formation of prices for the economy as a whole, undergone a devaluation with respect to the goods of the other sectors, in accordance with a dynamic that has opened up growing problems of income for, above all, those enterprises and sectors in which increased productivity has been slow and the incorporation of new technologies has been spotty.

This, therefore, is the problem that needs resolving and not, certainly, in terms of lowering the price of the labor force. It must be resolved, instead, by means of planned development policies, clear as to their objectives and powered by new

facilities for supportive intervention, by adequate and purposeful funding, by an operative labor policy, by real certainties of participation and by social and democratic control. This is precisely the direction in which the farm workers' platform for the renewal of the CCNL [expansion unknown] and the category initiative toward the institutions are aimed, in an effort to revitalize publicly funded support based on socially viable criteria of rational use and planning of resources.

#### FOOTNOTES

1. See FEDERBRACCIANTI: "Libro bianco sulla condizione di lavoro e le violazioni contrattuali in agricoltura" [White Book on Labor Conditions and Contractual Violations in Agriculture], Rome, 1980.
2. See Matteo Marini: "Analytical Considerations on the Distribution of Farm Income," LA QUESTIONE AGRARIA, No 2, 1981.
3. Stefano Patriarca and Luigi di Vezza: "CONFINDUSTRIA, Please Be More Serious," RASSEGNA SINDACALE, No 7, 1982.
4. Giulio Leopardi Dittaiuti: "Rapporto Verde 1982" [Green Report 1982], Rome, 1982.
5. FEDERBRACCIANTI and IRES-CGIL: "Notes on the Cost and on Farm Employee-Labor Supply in Lombardy," Milan, 1981.

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## SOLVENCY OF BANKING SYSTEM REVIEWED

Madrid ACTUALIDAD ECONOMICA in Spanish 22 Jul 82 pp 16-29

[Text] People can and do talk about banking, but perhaps it would be more accurate to talk about banks, because they are not all the same, especially when we compare their respective bottom lines. When all is said and done, a bank is there to make money, and some obviously do it better than others.

"High interest rates during inflation are completely fair and acceptable only to bankers." Although John Kenneth Galbraith was certainly not thinking about Spanish banks and bankers when he wrote this, there is no arguing that they did well in 1981 (when Spain's economy was marked by high inflation and high interest rates), because the sector as a whole recorded profit margins and profits that were appreciably higher than the year before.

We should, however, avoid generalizations, which often serve to conceal major untruths. The fact that the banking industry in general did well over the past fiscal year does not mean, far from it (there are more than enough examples), that all banks recorded handsome profits.

And to avoid generalizations ACTUALIDAD ECONOMICA is continuing the practice it began 2 years ago of publishing, analyzing and comparing the operating statements of some 30 Spanish commercial banks, which account for 90 percent of the total assets in the Spanish banking industry, and to determine the profitability of each one. Our report, then, talks about banks, not banking and focuses on profit margin, not size (though it does not ignore this either), because profit margin is the best yardstick of any bank.

The method of analysis is exactly the same as in previous years: net profit (after taxes) is the numerator and total average assets and internal cash generation are the denominators.

All of the data employed are public and appear in the yearbooks of the banks in question. Total average assets and average internal cash generation have been calculated on the basis of the end-of-the month statements of condition (January to December) that the Higher Banking Council publishes.

It would be presumptuous of us to say that this report contains the whole truth about Spanish banks (probably not even the Bank of Spain knows that), but it does contain more than enough data to draw several conclusions. The first, of course, is that every bank is different and runs its operations as best it knows how.

The lists of figures tell us where the strong and weak points of each bank lie. Some are more concerned about (or more successful in) achieving a high financial rate of return, while others base their strategy on keeping outlays under tight control so that operating costs do not prevent them from being competitive in the assets and liabilities markets. Some are more capitalized, which enables them to operate with a greater percentage of zero-cost funds, while others prefer to operate more with outside funds and thus pay more on their own deposits.

But regardless of the strategies of each bank, they all have the same ultimate aim: profits. Thus, continuing the practice of the previous edition, we will focus on three gauges for our rankings: profits as a percentage of total average assets, profits as a percentage of average internal cash generation and allowances for doubtful accounts and for security losses also as a percentage of total average assets.

#### The Seven Largest Banks: Keep an Eye on Costs!

The seven largest Spanish banks improved their positions relative to medium-size and small ones in 1981. An analysis of their statements of condition shows that all of the big banks have seen their financial, human and general costs rise in spite of the efforts to curtail them. Cost-saving is unquestionably the big challenge in the future.

In banking, as in almost all sectors, size is a question of degree. The general impression is that Spain's seven biggest banks have been unable to take advantage of their size, as far as profits are concerned, in competing with small and medium-size banks.

They made some progress in 1981, when for the first time the ratios of profits to average assets and to average internal cash generation for the seven largest banks were higher than for the small and medium-size banks. This obviously means that the average profits of the large banks were higher than the rest, but it also means that they increased faster.

If instead of looking at the average ratios for each group we focus on specific banks, we see that two medium-size banks (Herrero and Sabadell) and one small one (Castilla) take the hypothetical gold, silver and bronze medals in profits competition. But the trend is shifting, and the large banks are, in general, moving up. On the whole, then, the big banks are more profitable than the rest (which was not the case in previous years), but the most profitable banks of all are not large.

Profits as a Percentage of Total  
Average Assets: The Large Banks  
Come out on Top

Banco	1981	1980	1979
1. Herrero	1.67	1.51	1.25
2. Sabadell	1.47	1.35	1.38
3. Castilla	1.46	1.38	1.47
4. Andalucia	1.33	1.28	1.01
5. Santander	1.15	1.05	0.97
6. Galicia	1.17	1.22	1.05
7. March	1.09	0.85	0.92
8. Comer. Español	1.06	1.14	0.51
9. Popular	1.03	0.97	0.92
10. Crédito Balear	0.93	0.89	0.61
11. Banesto	0.88	0.76	0.80
average (large)	0.88	0.76	0.71
12. Central	0.84	0.77	0.66
average (medium)	0.84	0.80	0.75
13. Vizcaya	0.83	0.71	0.60
14. C. Transatlant.	0.81	0.81	0.73
15. Jover	0.79	0.82	0.61
16. Int. Comercio	0.74	0.71	0.68
17. Bilbao	0.74	0.63	0.58
18. Valencia	0.71	0.72	0.79
average (small)	0.71	0.67	0.62
19. Hispano	0.71	0.63	0.63
20. Garriga Nogues	0.69	0.78	0.64
21. Atlántico	0.66	0.61	0.52
22. Zaragozano	0.59	0.57	0.60
23. Guipuzcoano	0.58	0.62	0.66
24. Pastor	0.57	0.62	0.66
25. Vasconia	0.44	0.45	0.75
26. Alicante	0.43	0.45	0.42
27. Catalana	0.41	0.46	0.40
28. Simeon	0.26	0.11	0.04
29. Cred. Invers.	0.25	0.30	0.31
30. Condal	0.20	—	0.22
31. Mas Sarda	—	0.57	0.54

Profits as a Percentage of  
Average Internal Cash Generation:  
Happy Stockholders

Banco	1981	1980	1979
1. Castilla	25.47	22.12	27.44
2. Herrero	23.73	22.60	21.15
3. Sabadell	22.14	19.19	19.17
4. Galicia	21.46	19.22	20.26
5. Andalucia	20.41	18.90	17.37
6. Créd. Balear	17.20	15.50	12.45
7. Popular	16.77	15.54	15.01
8. Vizcaya	16.00	13.49	11.61
9. Hispano	15.95	13.14	12.49
10. Santander	15.19	14.16	12.95
average (large)	15.16	12.64	12.09
11. Banesto	14.64	12.06	13.17
12. Bilbao	14.10	11.09	10.65
13. Central	13.50	11.44	10.30
average (medium)	13.42	11.79	11.96
14. Atlántico	12.92	9.93	9.09
15. C. Transatlant.	12.71	11.46	11.59
16. Zaragozano	11.58	10.00	10.59
17. Garriga Nogués	11.37	11.11	7.76
18. March	11.37	8.27	8.33
19. Valencia	10.42	10.55	10.60
20. Pastor	9.99	9.13	10.52
21. Guipuzcoano	9.69	8.87	9.32
average (small)	9.59	8.58	7.82
22. Int. Comercio	8.72	9.51	12.35
23. Catalana	8.08	8.10	8.30
24. Vasconia	7.77	6.62	14.14
25. Comer. Español	7.30	7.65	2.74
25. Jover	6.87	7.20	8.12
27. Alicante	5.11	5.11	6.15
28. Cred. Inver.	4.56	5.05	5.04
29. Simeón	3.08	1.04	0.30
30. Condal	3.06	—	2.90
31. Mas Sarda	—	10.77	9.79

In any event, the seven giants are more profitable. How did they do it? In two ways. All banks have seen their financial, human and general costs rise from the previous fiscal year. For example, customer costs (which is ultimately the price paid for other people's money) have gone up 17.6 percent for the Central Bank, which has traditionally had and still has the least costly funds of the big bank group. On the other end of our survey, Vizcaya, whose dynamism on money markets has, by its own choice, given it a tradition of higher financial costs, has seen its customer costs rise by 22.7 percent.

Outlays for human resources, gauged in terms of cost per employee, have also risen. In the case of Hispano, which has the highest costs per employee, the jump was 18.1 percent. The first response by four of the seven (Hispano, Bilbao, Santander and Popular) to the rise in financial expenses has been to pass it on to their respective selling prices, so that their financial profits (after provisions) have risen somewhat. In the other three cases (Banesto, Central and Vizcaya), the response has been to cut operating costs; thus, even though profits are down in relative terms, with respect to total average assets they are up, because they have been able to cut their operating costs to a greater extent. Santander, which for the third straight year leads the seven biggest banks in profits as a percentage of total average assets, seems to have combined the two methods, because it is the only one that recorded a rise in its financial margin (up one percent) along with a slight drop in operating costs. And of course in the country of Joselito and Belmonte, when there are two alternatives, you have to choose one of them.

The name of the game for Spain's large banks in the future is without doubt cost-saving, because the future also holds all of these things in store:

--Increasingly tough competition in attracting and paying interest on funds, prompted both by the emergence and sophistication of nonbanking financial middlemen and of foreign banks and by the irreversible decontrol of interest rates;

--Increasingly tough competition in the area of investment. Typical bank investments (securities plus credits) as a percentage of deposits declined in all banks in this group in 1981, except for a very slight increase in Santander...And according to the laws of the marketplace, when demand drops, so do prices, if they can. It is true that last year and so far this year the public sector has been a favored customer because of the money that it has been borrowing and that has been going through it...But bankers realize that this is the path that leads the fastest to nationalization.

--And since competition will become and is becoming tougher on the two fronts of banking activity, the banks will be increasingly less able to control their financial margins, no matter how big they are. Thus, their efforts will have to focus on rationalizing and cutting costs.

Allowances for Doubtful Accounts  
and Securities Losses as a  
Percentage of Total Average Assets:  
Being Careful

Banco	1981	1980	1979
1. Vizcaya	1,35	1,19	1,02
2. Banesto	1,32	1,67	1,09
3. Andaluca	1,18	1,25	1,73
4. Int. de Comerc.	1,14	0,51	0,40
5. Bilbao	0,95	1,32	0,94
average (large)	0,95	1,10	0,95
6. Santander	0,93	1,03	1,44
7. Central	0,83	0,99	0,98
8. Guipuzcoano	0,72	0,65	0,54
9. Popular	0,68	0,65	0,85
10. Castilla	0,64	0,80	1,32
11. March	0,64	0,45	0,76
12. Zaragozano	0,64	0,46	0,49
13. Alicante	0,62	0,40	0,13
14. Garriga Nogues	0,60	0,72	0,21
15. Hispano	0,59	0,59	0,49
16. Credito Balear	0,59	0,49	0,27
average (medium)	0,57	0,70	0,63
17. Valencia	0,56	0,58	0,48
18. Sabadell	0,50	1,68	0,92
average (small)	0,48	0,66	0,45
19. Jover	0,47	1,07	1,27
20. Ccial. Español	0,47	0,59	0,55
21. Catalana	0,46	0,54	0,31
22. Simeon	0,45	0,62	0,18
23. Atlantico	0,40	0,45	0,45
24. C. Transatlan.	0,39	0,78	0,82
25. Pastor	0,38	0,35	0,39
26. Herrero	0,37	0,83	1,03
27. Cred. Invers.	0,34	0,44	0,05
28. Galicia	0,23	0,39	0,53
29. Vasconia	0,17	0,87	0,47
30. Condal	0,14	0,59	0,03
31. Mas Sarda	—	0,78	0,45

Profits as a Percentage of Total  
Average Assets: The Average Rises

Banco	1981	1980	1979
1. Santander	1,15	1,05	0,97
2. Popular	1,03	0,97	0,92
3. Banesto	0,88	0,76	0,80
average	0,88	0,76	0,71
4. Central	0,84	0,77	0,66
5. Vizcaya	0,83	0,71	0,60
6. Bilbao	0,74	0,63	0,58
7. Hispano	0,71	0,63	0,63

Profits as a Percentage of Average  
Internal Cash Generation: Major  
Changes

Banco	1981	1980	1979
1. Popular	18,11	15,54	15,01
2. Vizcaya	17,09	13,49	11,61
3. Hispano	15,82	13,14	12,49
4. Santander	15,45	14,16	12,95
average	15,39	12,64	12,09
5. Banesto	15,26	12,06	13,17
6. Bilbao	14,47	11,09	10,65
7. Central	14,02	11,44	10,30

The following key applies to the operating statements on succeeding pages:

1. Total average assets
2. Average internal cash generation
3. Financial revenues
4. Financial costs
5. Provisions and doubtful accounts (1)
6. Financial margin (or profits), allowances deducted
7. Commissions on guarantees, document costs and bank services
8. Total net revenue (A)
9. Wages and salaries
10. General expenses
11. Miscellaneous taxes
12. Amortizations
13. Operating costs (B)
14. Operating profit (A-B)
15. Allowance for securities losses (2)
16. Other miscellaneous revenues
17. Before tax profits
18. Provision for corporate tax
19. Net profits
20. Dividends
21. Undistributed profits
22. Total allowances (1 + 2)
23. As a percentage of total average assets
24. Profits
25. As a percentage of total average assets
26. As a percentage of average internal cash generation
27. Percentages of total average assets each year

# The Rapid Growth of the Big Banks (Earnings and Profits of the Seven Largest Spanish Banks in millions of pesetas) EL ESTIRON DE LOS GRANDES

(Resultados y rentabilidad de los siete grandes bancos españoles, en millones de pesetas)

	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1) Activos totales medios	1 381 127.15	1 299 527.08	1 251 291.92						
(2) Recursos propios medios	82 574.01	80 916.52	44 653.72						
(3) Productos financieros	162 493.33	11.76	11.76	10.48	150 282.54	11.57	10.33	9.22	152 022.10
(4) Costes financieros	96 158.01	6.96	6.44	5.99	95 128.90	1.32	5.86	5.18	109 282.30
(5) Provisiones e insolvencias (1)	14 838.82	1.07	1.52	0.90	10 364.16	0.80	0.83	0.61	6 400.90
(6) Margen financiero (neto de provisiones)	51 496.50	3.73	3.80	3.59	44 789.48	3.45	3.64	3.43	46 338.90
(7) Comisiones por avales, cios, document y serv. banc.	13 132.19	0.95	0.92	0.96	15 904.78	1.22	1.22	1.18	13 831.00
(8) Productos totales netos (A)	64 628.69	4.68	4.72	4.55	60 694.26	4.67	4.86	4.61	60 169.90
(9) Costes de personal	32 771.43	2.37	2.57	2.56	31 761.66	2.44	2.57	2.56	34 609.80
(10) Gastos generales	9 647.42	0.70	0.69	0.68	8 535.02	0.66	0.59	0.56	8 296.20
(11) Tributos varios	493.69	0.04	0.04	0.14	1 687.36	0.13	0.04	0.11	645.90
(12) Amortizaciones	4 207.13	0.30	0.28	0.26	3 441.41	0.26	0.40	0.21	3 174.40
(13) Costos de transformación (B)	47 119.67	3.41	3.58	3.64	45 425.45	3.49	3.60	3.44	46 726.30
(14) Resultado de explotación (A) - (B)	17 509.02	1.27	1.14	0.91	15 268.81	1.18	1.26	1.17	13 443.60
(15) Saneamiento de a cartera de hipotecas	3 356.43	0.25	0.15	0.19	5 190.02	0.04	0.16	0.37	2 055.30
(16) Otros resultados varios	15 400.12	1.12	0.98	1.06	13 674.32	1.05	1.04	0.90	11 673.50
(17) Resultado antes de impuestos	15 400.12	1.12	0.98	1.06	13 674.32	1.05	1.04	0.90	11 673.50
(18) Provision para impuesto de sociedades	3 313.40	0.24	0.22	0.26	2 750.06	0.21	0.27	0.24	0.77
(19) Beneficio neto	12 086.72	0.88	0.76	0.80	10 924.32	0.84	0.77	0.66	10 944.40
(20) Dividendo	6 072.29	—	—	—	5 532.04	—	—	—	8 679.10
(21) Beneficio retenido	6 014.43	—	—	—	5 392.28	—	—	—	4 402.40
(22) Total saneamientos (1) + (2)	—	—	—	—	—	—	—	—	4 476.70
(23) % s/Activos totales medios	1.32	1.07	1.09	0.83	0.99	0.98	0.59	0.59	0.49
(24) Rentabilidad:									
(25) % s/Activos totales medios	0.88	0.76	0.80	0.84	0.77	0.66	0.71	0.63	0.63
(26) % s/Recursos propios medios	14.64	12.06	13.17	13.50	11.44	10.30	15.95	13.14	12.49

\* Porcentajes sobre activos totales medios de cada año

BANESTO

CENTRAL



HISPANO





BILBAO



VIZCAYA



SANTANDER



POPULAR



	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1)	1 084 191 92			850 693 85			762 820 08			512 599 92		
(2)	56 820 47			44 263 43			59 162 10			31 606 90		
(3)	143 280 32	13.22	11.86	10.83	119 039 24	13.99	12.36	10.67	95 880 91	12.25	11.45	9.51
(4)	89 531 92	8.26	7.19	6.48	81 204 49	9.54	7.87	6.57	56 703 73	7.24	6.47	4.66
(5)	8 734 79	0.81	0.88	0.55	9 714 97	1.15	0.93	0.84	6 300 09	0.81	0.82	0.42
(6)	45 013 61	4.15	3.79	3.80	28 119 78	3.30	3.56	3.26	32 877 09	4.20	4.16	4.43
(7)	15 608 23	1.44	1.55	1.37	9 783 54	1.15	1.30	1.18	8 731 29	1.12	1.13	1.37
(8)	60 621 84	5.59	5.34	5.17	37 903 32	4.45	4.86	4.44	41 608 38	5.32	5.29	5.80
(9)	31 926 94	2.94	2.95	2.92	19 129 88	2.25	2.37	2.39	19 108 67	2.44	2.59	2.65
(10)	12 100 30	1.11	1.01	0.86	5 908 58	0.70	0.75	0.79	6 295 90	0.81	0.66	0.64
(11)	925 89	0.09	0.07	0.10	296 46	0.03	0.03	0.12	649 58	0.08	0.15	0.14
(12)	2 343 32	0.22	0.22	0.18	1 887 01	0.22	0.27	0.14	2 484 55	0.32	0.26	0.19
(13)	47 298 45	4.36	4.25	4.06	27 221 93	3.20	3.42	3.44	28 538 70	3.65	3.66	3.62
(14)	13 323 309	1.23	1.09	1.11	10 681 39	1.25	1.44	1.00	13 069 68	1.67	1.63	2.18
(15)	1 612 84	0.15	0.24	0.39	1 818 67	0.21	0.26	0.18	1 040 18	0.13	0.20	1.02
(16)	-803 86	-0.07	0.20	0.05	480 20	-0.06	-0.30	—	-226 20	-0.03	-0.05	0.08
(17)	10 906 69	1.01	0.85	0.77	8 382 52	0.98	0.88	0.82	11 803 30	1.51	1.38	1.24
(18)					1 300 00	0.15	0.17	0.22	2 819 00	0.36	0.33	0.27
(19)	2 895 00	0.27	0.22	0.19	7 062 52	0.63	0.71	0.60	8 984 30	1.15	1.05	0.97
(20)	8 011 69	0.74	0.63	0.58	3 539 11				4 734 30	2 257 90		
(21)	4 544 47				3 543 41				4 250 00	3 042 69		
(22)	3 467 22											
(23)		0.95	1.32	0.94		1.35	1.19	1.02		0.93	1.03	1.44
(24)												
(25)		0.74	0.63	0.58		0.83	0.71	0.60		1.15	1.05	0.97
(26)		14.10	11.09	10.65		16.00	13.49	11.61		15.19	14.16	12.95
											16.77	15.54
												15.01

## LOS SIETE EN BLOQUE

The Seven Banks  
as a Group

(Suma de los resultados de los siete grandes)

	1981	1980	1979
(1) Activos totales medios	7 162.252		
(2) Recursos propios medios	410.997		
	(*)	(*)	(*)
(3) Productos financieros	898.454	12,54	10,69
(4) Costes financieros	566.934	7,91	6,84
(5) Provisiones e insolvencias (1)	59.881	0,83	0,91
(6) Margen financiero (neto de provisiones)	271.639	3,79	3,77
(7) Comisiones por avales, ctos. document. y servicios bancarios	84.142	1,17	1,21
(8) Productos totales netos (A)	355.781	4,96	4,98
(9) Costes de personal	185.820	2,59	2,70
(10) Gastos generales	55.580	0,78	0,73
(11) Tributos varios	5.138	0,07	0,06
(12) Amortizaciones	18.573	0,26	0,26
(13) Costos de transformación (B)	265.109	3,72	3,76
(14) Resultado de explotación (A) - (B)	90.672	1,26	1,22
(15) Saneamiento de la cartera de títulos (2)	9.392	0,13	0,15
(16) Otros resultados varios	-2.332	0,03	-0,06
(17) Resultado antes de impuestos	78.941	1,11	1,01
(18) Prevision para impuesto de Sociedades	17.671	0,25	0,25
(19) Beneficio neto	61.270	0,85	0,76
(20) Dividendo	31.775		
(21) Beneficio retenido	29.495		
(22) Total saneamientos (1) + (2)			
(23) % s/Activos totales medios	0,95	1,10	0,95
(24) Rentabilidad:			
(25) % s/Activos totales medios	0,85	0,76	0,71
(26) % s/Recursos propios medios	14,91	12,64	12,09
(27) (*) Porcentajes sobre activos totales medios de cada año			

Allowances for Doubtful Accounts and Securities Losses as a Percentage of Total Average Assets: Amounts Decline

Banco	1981	1980	1979
1. Vizcaya	1,35	1,19	1,02
2. Banesto	1,32	1,67	1,09
3. Bilbao	0,95	1,32	0,94
average	0,95	1,10	0,95
4. Santander	0,93	1,03	1,44
5. Central	0,83	0,99	0,98
6. Popular	0,68	0,65	0,85
7. Hispano	0,59	0,59	0,49

In this regard, it would be unfair not to acknowledge the efforts made and the results achieved by the seven largest banks over the past fiscal year. But they are still not enough if we bear in mind that the seven spend practically three-fourths of their total net income (in other words, after financial expenses and reserves for bad debts and securities losses are deducted) on operating costs...This is too high a percentage when dealing with almost 7 trillion pesetas. Mass production is almost a plan for the future when it ought to already be a reality.

#### Medium-Size Banks: Control Your Costs and Boost Your Revenues

The differences in profits among the medium-size banks widened in 1981 with respect to the previous fiscal year. The key to profitability in this group is not so much controlling outlays as boosting revenues.

The balance sheets of the medium-size banks are probably the most interesting to analyze and compare, because this is the group with the biggest differences, a direct reflection of the varying strategic approaches, many of which are conditioned by historic and geographic circumstances.

Specifically, the differences in profits among the medium-size banks widened in 1981 with respect to previous fiscal years. Taking profits as a percentage of total average assets, for example, in 1981 the difference between the leader of the 12 medium-size banks (Herrero, for the second straight year) and the last-place bank (Banca Catalana) over the three fiscal years under study was 1 to 4 (1.67 versus 0.41 percent of total average assets), whereas in 1980 the ratio was barely above 1 to 3 (1.51 versus 0.46).

#### Not All Up

The average profits as a percentage of assets of the 12 banks rose 5 percent from 1980 to 1981. But it was not due to a uniform and/or across-the-board jump in their profits. Seven banks increased their profits (in general the rises were greatest for the banks that head up the list in this regard), but four saw a drop and one recorded no change.

Why such major differences? There is, of course, no single explanation, but a detailed review of the balance sheets in the tables shows that some factors were more important than others.

It is not of course a coincidence that the banks with the highest profits as a percentage of total average assets are practically the same ones (the only major exception is Comercial Transatlantico) whose net financial profits are the highest. In other words, one of the main profit-making factors in this group of banks is achieving a substantial spread between what is paid for liabilities (regardless of their origin) and what is charged on assets. In 1981 Herrero had a financial margin (provisions deducted) of 6.52 percent of the total average assets it managed, whereas Catalana's margin was just 3.42 percent, a difference of a full 90 percent.

# AUMENTAN LAS DIFERENCIAS

Differences Widen (Earnings and Profits of 12 Medium-Size Banks in millions of pesetas)

(Resultados y rentabilidad de 12 bancos medianos, en millones de pesetas)



## SUMA 12 BANCOS

Total, 12 Banks

PASTOR

ATLANTICO

	1981	1980	1979		1981	1980	1979		1981	1980	1979
1.513.815				Activos totales medios (1)	214.061			201.860			
94.486				Recursos propios medios (2)	12.339			10.416			
(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)		(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)		(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)
191.576	12.65	11.39	10.79	Productos financieros (3)	27.952	13.05	11.73	11.16	24.422	12.09	11.24
117.557	7.76	6.58	5.99	Costes financieros (4)	19.150	8.94	7.18	6.86	15.812	7.83	6.86
7.796	0.51	0.61	0.53	Previsiones e insolvencias (1)	814	0.38	0.18	0.26	-751	0.37	0.29
6.623	4.37	4.20	4.27	Margen financiero (neto de provisiones) (5)	7.968	3.73	4.37	4.04	7.859	3.89	4.09
				Comisiones por avales, citos, document.							
19.920	1.31	1.31	1.20	Y servicios bancarios (7)	2.103	0.98	1.00	0.99	3.238	1.60	1.72
86.143	5.69	5.51	5.47	Productos totales netos (A) (8)	10.091	4.71	5.37	5.03	11.997	5.49	5.81
46.648	3.08	3.14	3.03	Costes de personal (9)	5.916	2.76	3.13	3.01	6.313	3.12	3.21
14.578	0.96	0.94	0.89	Gastos generales (10)	1.969	0.91	0.89	0.78	2.578	1.27	1.39
1.181	0.00	0.08	0.11	Tributos varios (11)	30	—	0.05	0.11	172	—	0.12
3.566	0.23	0.25	0.30	Amortizaciones (12)	585	0.27	0.29	0.22	412	0.20	0.22
55.967	4.35	4.41	4.33	Costos de transformación (B) (13)	8.560	3.99	4.36	4.12	9.475	4.69	4.75
20.176	1.33	1.10	1.14	Resultado de explotación (A) - (B) (14)	1.531	0.71	1.01	0.91	1.622	0.80	0.87
-839	0.05	0.09	0.10	Sanearamiento de la cartera de lituos (2) (15)	-9	—	0.17	0.13	-25	—	0.16
4.751	0.31	0.05	0.06	Otros resultados varios (16)	-68	—	0.09	0.01	-75	—	0.04
16.357	1.08	1.06	1.10	Resultado antes de impuestos (17)	1.453	0.67	0.75	0.77	1.546	0.76	0.75
3.674	0.24	0.26	0.35	Prevision para impuesto de Sociedades (18)	220	—	0.13	0.11	350	—	0.14
12.683	0.84	0.80	0.75	Beneficio neto (19)	1.233	0.57	0.62	0.66	1.346	0.66	0.61
5.419				Dividendo (20)	702				635		
7.265				Beneficio retenido (21)	531				711		
				Total saneamientos: (1) + (2)							
0.57	0.70	0.63		% y Activos totales medios (22)		0.36	0.35	0.39		0.40	0.45
				Rentabilidad: (24)							
0.84	0.80	0.75		% y Activos totales medios (25)		0.57	0.62	0.66		0.66	0.61
13.42	11.79	11.96		% y Recursos propios medios (26)		9.99	9.13	10.52		12.92	9.93

(\*) Porcentajes sobre activos totales medios de cada año (27)

**CATALANA****SABADELL****ZARAGOZANO****VALENCIA**

	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1)	192 832			166 656			131 789			106 377					
(2)	9 870			11 086			6 722			7 284					
(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
(3)	25 321	13.10	11.42	9.61	22 757	13.60	12.55	12.96	17 299	13.—	11.87	11.48	11 508	10.80	9.89
(4)	17 851	9.29	7.62	6.36	12 188	7.3	6.76	5.97	10 883	8.25	7.24	6.65	6 836	6.4	5.22
(5)	858	0.44	0.54	0.31	701	0.04	1.63	0.87	-730	0.55	0.46	0.49	585	0.54	0.47
(6)	6 612	3.42	3.26	2.94	9 868	5.92	4.16	6.12	5 686	4.31	4.17	4.34	4 087	3.84	4.20
(7)	2 246	1.16	1.24	1.18	2 224	1.33	1.43	0.83	1 384	1.05	1.14	0.62	1 534	1.44	0.85
(8)	8 858	4.59	4.50	4.12	12 092	7.2	5.59	6.95	7 070	5.36	5.31	5.16	5 621	5.28	5.05
(9)	5 916	3.06	3.06	2.69	4 997	2.9	2.88	2.78	4 319	3.27	3.51	3.38	3 075	2.89	2.76
(10)	1 811	0.93	0.88	0.75	1 194				1 019	0.77	0.78	0.76	1 046	0.98	0.88
(11)	68		0.02	0.10	165	0.7	0.63	0.64	135		0.12	0.11	87		0.07
(12)	264	0.13	0.13	0.12	412		0.08		328		0.25	0.20	249		0.23
(13)	8 059	4.17	4.09	3.66	6 763	0.2	0.31	1.13	5 801	4.40	4.66	4.45	4 457	4.18	3.94
(14)	799	0.41	0.41	0.46	5 329	4.05	3.90	4.55	1 269	0.96	0.65	0.71	1 164	1.09	1.11
(15)	-48				-148	3.19	1.69	2.40	-117				-20		0.11
(16)	195		0.11	0.04	-2 153		0.05	0.05	-139		0.11	0.09	-140		0.03
(17)	948	0.49	0.52	0.50	3 024	1.29	0.20	0.20	1 013	0.76	0.76	0.80	1 004	0.94	0.97
(18)	150		0.06	0.10	569	1.81	1.84	2.55	234		0.19	0.20	245		0.25
(19)	798	0.41	0.46	0.40	2 455		0.49	1.17	779	0.59	0.57	0.60	759	0.71	0.72
(20)					919	1.4	1.35	1.38	482				418		
(21)	98				1 536				297				341		
(22)															
(23)		0.46	0.54	0.31		0.5	1.68	0.92		0.64	0.46	0.49		0.56	0.58
(24)															
(25)		0.41	0.46	0.40		1.47	1.35	1.38		0.59	0.57	0.60		0.71	0.72
(26)		8.08	8.10	8.30		22.14	19.19	19.77		11.58	10.00	10.59		10.42	10.55

# AUMENTAN LAS DIFERENCIAS

(Resultados y rentabilidad de 12 bancos medianos, en millones de pesetas)



**MA**

## SUMA 12 BANCOS

## ANDALUCÍA

## MARCH

	1981	1980	1979		1981	1980	1979		1981	1980	1979		
1 513 815				Activos totales medios	(1)	10 925		90 520					
94 486				Recursos propios medios	(2)	7 280		8 711					
(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)		(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)		(*) (*) (*) (*)	(*) (*) (*) (*)	(*) (*) (*) (*)		
191 576	12,65	11,39	10,79	Productos financieros	(3)	3 694	12,3	11,25	10,86	10 731	11,8	10,52	10,52
117 557	7,76	6,58	5,99	Costes financieros	(4)	6 767	6,10	5,48	5,13	5 924	6,5	5,61	5,02
7 796	0,51	0,61	0,53	Provisiones e insolvencias (*)	(5)	1 287	1,16	1,11	1,69	441	0,48	0,22	0,20
6 623	4,37	4,20	4,27	Margen financiero (neto de provisiones)	(6)	5 640	5,08	4,66	4,04	4 366	4,82	4,69	5,33
Comisiones por avales, cios, document.													
19 920	1,31	1,31	1,20	y servicios bancarios	(7)	1 373	1,23	1,58	1,58	1 260	1,39	1,30	1,32
86 143	5,69	5,51	5,47	Productos totales netos (A) - (B)	(8)	7 013	6,32	6,16	5,62	5 626	6,21	5,99	6 626
46 648	3,08	3,14	3,03	Costes de personal	(9)	3 027	2,72	2,74	2,62	3 056	3,37	3,41	3 556
14 578	0,96	0,94	0,89	Gastos generales	(10)	1 105	0,99	0,93	0,87	904	0,89	0,85	0 994
1 181	0,08	0,08	0,11	Tributos varios	(11)	83	—	0,09	0,14	61	—	0,06	0,11
3 566	0,23	0,25	0,30	Amortizaciones	(12)	268	0,24	0,23	0,22	203	—	0,24	0,15
65 967	4,35	4,41	4,33	Costos de transformación (B) - (C)	(13)	4 483	4,04	3,99	3,85	4 124	4,55	4,56	4 822
20 176	1,33	1,10	1,14	Resultado de explotación (A) - (B) - (C)	(14)	2 530	2,28	2,17	1,77	1 502	1,65	1,43	1 802
- 839	0,05	0,09	0,10	Salvamento de la cartera de títulos (D) - (E)	(15)	-29	—	0,14	0,04	-141	—	0,23	0,56
4 751	0,31	0,05	0,06	Otros resultados varios	(16)	-272	—	0,01	0,08	-38	—	0,05	0,01
16 357	1,08	1,06	1,10	Resultado antes de impuestos	(17)	2 229	2,00	2,00	1,81	323	1,46	1,15	1 223
3 674	0,24	0,26	0,35	Provision para impuesto de Sociedades (18)	(18)	743	0,66	0,74	0,80	332	—	0,30	0,31
12 683	0,84	0,80	0,75	Beneficio neto	(19)	1 486	1,33	1,28	1,01	991	1,09	0,85	0 923
5 419				Dividendo	(20)	568				503			
7 265				Beneficio reinido	(21)	918				488			
Total saneamientos (1) + (2)													
	0,57	0,70	0,63	% Activos totales medios	(22)		118	1,25	1,73		0,64	0,45	0,71
Rentabilidad:													
	0,84	0,80	0,75	% Activos totales medios	(23)		1,33	1,28	1,01		1,09	0,85	0,9
	13,42	11,79	11,96	% Recursos propios medios	(26)		20,41	18,90	17,37		11,37	8,27	8,3

(\*) Porcentajes sobre activos totales medios de cada año (27)



**GUPIZCOANO****BANCO HERRERO****INTERNACIONAL  
DE COMERCIO****COMERCIAL  
TRANSATLANTICO**

	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1)	87.588			75.411			67.401			68.395		
(2)	5.322			5.308			5.767			4.381		
(3)	11.337	12.9	12.22	11.38	9.532	12.64	10.85	10.40	8.978	13.30	11.51	10.76
(4)	6.931	7.91	7.39	6.83	4.456	5.91	4.74	4.40	6.541	9.70	7.91	6.92
(5)	618	0.70	0.62	0.48	153	0.20	0.83	1.03	658	0.97	0.51	0.40
(6)	3.788	4.32	4.21	4.07	4.923	6.52	5.28	4.97	1.779	2.63	3.09	3.44
(7)	1.188	1.35	1.35	1.50	1.015	1.34	1.39	1.37	845	1.25	1.17	1.05
(8)	4.016	5.68	5.56	5.57	5.358	7.87	6.67	6.34	2.624	3.89	4.26	4.49
(9)	2.848	3.25	3.29	3.30	2.477	3.28	3.02	2.91	1.692	2.51	2.45	2.35
(10)	806	0.92	0.99	0.96	898	1.19	1.15	1.03	711	1.05	0.93	0.93
(11)	73	—	0.08	0.14	62	0.08	0.09	0.11	63	—	0.12	0.11
(12)	268	0.30	0.32	0.30	317	0.42	0.33	0.26	139	0.20	0.18	0.12
(13)	3.995	4.56	4.68	4.70	3.754	4.97	4.59	4.31	2.605	3.86	3.68	3.51
(14)	981	1.12	0.88	0.87	2.184	2.89	2.08	2.03	19	—	0.58	0.98
(15)	—	—	0.03	0.06	—	—	—	—	—	—	—	—
(16)	301	—	0.0	0.12	331	0.04	0.05	0.36	693	1.02	0.29	0.07
(17)	765	0.75	0.7	0.93	—	2.28	2.03	1.67	600	0.89	0.87	0.91
(18)	149	0.17	0.18	0.30	461	—	0.52	0.42	97	—	0.16	0.23
(19)	512	0.58	0.61	0.63	240	1.67	1.51	1.25	565	0.74	0.71	0.68
(20)	363				268				303			
(21)	153				992				200			
(22)												
(23)		0.72	0.65	0.54		0.37	0.83	1.03		1.14	0.51	0.40
(24)												
(25)		0.58	0.61	0.63		1.67	1.51	1.25		0.74	0.71	0.68
(26)		9.69	8.87	0.32		23.73	22.60	21.15		8.72	9.51	12.35



Profits as a Percentage of Average  
Internal Cash Generation: Three Stars

Allowances for Doubtful Accounts and  
Securities Losses as a Percentage of  
Total Average Assets: Coverage Down

Banco	1981	1980	1979
1. Herrero	23.73	22.60	21.15
2. Sabadell	22.14	19.19	19.77
3. Andaluca	20.41	18.90	17.37
average	13.42	11.79	11.96
4. Atlantico	12.92	9.93	9.09
5. C. Transatlan	12.71	11.46	11.59
6. Zaragozano	11.58	10.00	10.59
7. March	11.37	8.27	8.33
8. Valencia	10.42	10.55	10.60
9. Pastor	9.99	9.13	10.52
10. Guipuzcoano	9.69	8.87	9.32
11. Int. Comercio	8.72	9.51	12.35
12. Catalana	8.08	8.10	8.30

Banco	1981	1980	1979
1. Andaluca	1.18	1.25	1.73
2. Int. Comercio	1.14	0.51	0.40
3. Guipuzcoano	0.72	0.65	0.54
4. March	0.64	0.45	0.76
5. Zaragozano	0.64	0.46	0.49
average	0.57	0.70	0.63
6. Valencia	0.56	0.58	0.48
7. Sabadell	0.50	1.68	0.92
8. Catalana	0.46	0.54	0.31
9. Atlantico	0.40	0.45	0.45
10. C. Transatlant	0.39	0.78	0.82
11. Pastor	0.38	0.35	0.39
12. Herrero	0.37	0.83	1.03

Profits as a Percentage of Total Average Assets: Modest Rise

Banco	1981	1980	1979
1. Herrero	1.67	1.51	1.25
2. Sabadell	1.47	1.35	1.38
3. Andaluca	1.33	1.28	1.01
4. March	1.09	0.85	0.92
average	0.84	0.80	0.75
5. C. Transatlant.	0.81	0.81	0.73
6. Int. Comercio	0.74	0.71	0.68
7. Valencia	0.71	0.72	0.79
8. Atlantico	0.66	0.61	0.52
9. Zaragozano	0.59	0.57	0.60
10. Guipuzcoano	0.58	0.62	0.66
11. Pastor	0.57	0.62	0.66
12. Catalana	0.41	0.46	0.40

### Not Such Major Differences

The importance of securing a good financial margin is reaffirmed when we note that operating costs (the broad category that includes manpower and general expenses, amortizations and miscellaneous taxes) are much more similar among the various medium-size banks. There are differences, of course, but much smaller ones. Pastor (which is not the most profitable) has the lowest relative operating costs, and Comercial Transatlantico the highest. The gap, however, is only 40 percent, which is more than justified if we bear in mind that Pastor is the largest of the medium-size banks (214.061 billion in total average assets) and Comercial Transatlantico the second smallest (68.395 billion in assets).

Taking the appropriate precautions and acknowledging the corresponding exceptions, we can establish a general hypothesis: the profitability of the medium-size banks does not depend so much on their capacity to hold down operating expenses as on their ability to widen their financial margins. In other words, in this case curbing expenses is less profitable than boosting revenues.

As is usually the case, of course, it is one thing to formulate a hypothesis and another to put it into practice. In order to boost revenues, the medium-size banks will have to exercise the kind of imagination and engage in the kind of streamlining and market penetration efforts that they did in the 1960's, but in a much more difficult context, both because of competition from other banking and nonbanking entities and because of the crisis in business and family economies in Spain. But they will have to do it, because their own independence as banks without ties to any of the big boys is at stake.

### The Small Banks: Profits and Problems

The long march of the small banks along the road of profits was not devoid of problems in 1981. Average profits were up again, although the heavy losses of the Banca Mas Sarda have endangered the standing of this group of 12 banks and forced us to calculate averages on the basis of 11 entities.

Even if we exclude the Banca Mas Sarda, the profits of these 11 small banks as a percentage of total average profits did not increase appreciably in the last fiscal year. At the close of 1981, the average profitability stood at 0.71 percent (0.67 in 1980), but the difficulties involved in achieving this rise are illustrated by the fact that only 3 of the 11 banks in this group recorded increases in their profitability indices. Castilla, Credito Balear and Simeon were the only ones that improved, even though their individual rankings were far apart. Profits as a percentage of total average assets were highest in Castilla, followed by Credito Balear, Comercial Espanol, Credito Balear and Banca Jover.

# A VUELTAS CON EL TAMAÑO

Coping with Smallness (Earnings and Profits of 12 Small Banks in millions of pesetas)



(Resultados y rentabilidad de 12 bancos pequeños, en millones de pesetas)

## SUMA 11 BANCOS\*\*

Total, 11 Banks

## MAS SARDÀ

## GARRIGA NOGUÉS

	1981	1980	1979		1981	1980	1979		1981	1980	1979
432.457				Activos totales medios (1)	63.254				67.234		
32.376				Recursos propios medios (2)	3.319				4.125		
(*)	(*)	(*)			(*)	(*)	(*)		(*)	(*)	(*)
54.663	12.64	11.63	11.27	Productos financieros (3)	7.455	11.70	11.52	11.30	8.539	12.70	12.21
34.334	7.93	6.85	6.68	Costes financieros (4)	5.011	7.92	7.12	6.81	6.929	10.30	9.23
2.061	0.47	0.64	0.39	Provisiones e insolvencias (1) (5)	1.228	1.94	0.78	0.44	386	0.57	0.72
18.768	4.22	4.14	4.20	Margen financiero (neto de provisiones) (5)	1.216	1.92	3.62	4.05	1.225	1.88	2.17
				Comisiones por avales, citos, document							
3.258	0.75	1.03	0.98	Y servicios bancarios (7)	862	1.36	1.24	1.28	110	0.10	0.92
21.899	5.06	5.17	5.18	Productos totales netos (A) (8)	2.078	3.28	4.86	5.34	1.332	1.98	3.09
12.830	2.82	2.91	2.86	Costes de personal (9)	1.579	2.49	2.77	2.88	854	1.27	1.26
4.563	1.05	1.06	1.02	Gastos generales (10)	715	1.13	1.12	1.23	515	0.76	0.91
344	0.07	0.07	0.12	Indultos varios (11)	76	0.11	0.16	0.16	108	0.16	0.07
1.144	0.26	0.27	0.25	Amortizaciones (12)	183	0.28	0.28	0.25	36	0.14	0.13
18.279	4.22	4.31	4.25	Costos de transformación (B) (13)	2.543	4.02	4.28	4.52	1.577	2.34	2.37
3.620	0.83	0.86	0.93	Resultado de explotación (A) - (B) (14)	465	—	0.58	0.82	242	0.36	0.72
56	0.01	0.02	0.06	Sanearamiento de la cartera de títulos (2) (15)	—	—	—	0.01	21	—	—
187	0.11	0.04	0.00	Otros resultados varios (16)	-2.682	—	0.04	0.06	772	1.15	0.12
4.051	0.93	0.88	0.87	Resultado antes de impuestos (17)	3.147	—	0.62	0.75	509	0.75	0.84
343	0.21	0.21	0.25	Provision para impuesto de sociedades (18)	—	—	0.05	0.21	46	—	0.06
3.108	0.71	0.67	0.62	Beneficio neto (19)	-3.147	—	0.57	0.54	469	0.69	0.78
637				Dividendo (20)	—						
2.902				Beneficio retenido (21)	—						
				Total saneamientos (1) + (2) (22)	(22)						
	0.48	0.66	0.45	% Activos totales medios (23)		0.78	0.45		0.60	0.72	0.21
				Rentabilidad: (24)							
	0.71	0.67	0.62	Activos totales medios (25)		0.57	0.54		0.69	0.78	0.65
	9.59	8.58	7.82	% Recursos propios medios (26)		10.77	9.79		11.37	11.11	7.71

\*\* Resultados sobre activos totales medios de cada año (27)

Excluida la Banca Mas Sarda Excluding Mas Sarda Bank



# CASTILLA

# CONDAL

# CREDITO E INVERSIONES

# COMERCIAL ESPAÑOL

	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1)	49.932			43.460			41.819			39.535		
(2)	2.879			2.942			2.299			5.771		
(3)	6.366	12.7	11.64	11.36	5.202	11.9	10.82	12.38	4.829	11.50	10.59	10.07
(4)	3.584	7.17	6.33	5.78	3.271	7.52	6.65	8.57	3.187	7.62	5.86	5.74
(5)	3.22	0.63	0.80	1.32	5.1	—	0.59	0.03	143	0.34	0.42	—
(6)	2.465	4.93	4.50	4.26	1.670	4.30	3.58	3.78	1.498	3.58	4.31	4.33
(7)	2.884	5.77	5.32	5.12	2.212	5.08	4.52	4.66	65	—	0.95	0.82
(8)	4.44	1.88	1.98	1.72	1.460	3.35	3.28	3.08	1.563	3.73	5.26	5.15
(9)	4.06	0.81	0.77	0.65	4.73	1.08	1.10	1.03	1.515	3.62	3.57	3.52
(10)	28	—	0.08	0.14	2.1	—	0.06	0.10	464	1.10	1.02	0.91
(11)	84	—	0.14	0.13	134	0.30	0.22	0.17	19	—	0.03	0.11
(12)	1.462	2.92	2.97	2.64	2.086	4.80	4.66	4.36	64	—	0.24	0.13
(13)	1.422	2.84	2.35	2.48	1.24	0.28	0.13	0.27	2.061	4.92	4.86	4.67
(14)	—	—	0.00	0.00	—	—	—	—	498	—	0.40	0.48
(15)	—	—	0.05	0.07	34	—	0.13	0.03	—	—	0.02	0.05
(16)	2.20	2.29	2.55	2.55	94	0.20	—	0.30	603	1.44	0.04	0.01
(17)	0.74	0.91	1.08	1.08	—	—	—	—	105	0.25	0.42	0.42
(18)	1.46	1.38	1.47	1.47	30	—	—	—	—	—	0.12	0.11
(19)	217				105				0.30	0.31	0.31	0.31
(20)	514				—				—			
(21)					105				421			
(22)												
(23)	0.64	0.80	1.32	1.32	0.14	0.59	0.03	0.03	0.34	0.44	0.05	0.05
(24)	1.46	1.38	1.47	1.47	0.20	—	0.22	—	0.25	0.30	0.31	—
(25)	25.47	22.12	27.44	27.44	3.06	—	2.90	—	4.56	5.05	5.04	—

# A VUELTAS CON EL TAMANO

(Resultados y rentabilidad de 12 bancos pequeños, en millones de pesos)



## SUMA 11 BANCOS\*\*

SIMEON

JOVER

	1981	1980	1979		1981	1980	1979		1981	1980	1979
432.457				Activos totales medios	(1)						
32.376				Recursos propios medios	(2)						
(*)	(*)	(*)	(*)								
54.663	12.64	11.63	11.27	Productos financieros	(3)	5.008	13.2	11.96	10.96	4.047	12.9
34.334	7.93	6.85	6.68	Costos financieros	(4)	3.328	8.80	7.62	7.13	2.095	6.7
2.061	0.47	0.64	0.39	Provisiones e insolvencias	(5)	153	0.40	0.60	0.17	147	0.04
18.268	4.22	4.14	4.20	Margen financiero (neto de provisiones)	(6)	2.47	4.03	3.74	3.66	1.77	5.7
				Comisiones por avalúos y servicios bancarios	(7)	376	0.99	0.83	0.85	235	0.94
3.258	0.75	1.03	0.98	Productos totales netos (A)	(8)	3.85	5.03	4.57	4.51	6.71	6.09
2.899	5.06	5.17	5.18	Costos de personal	(9)	1.129	2.98	3.02	3.01	1.45	3.34
1.230	2.82	2.91	2.86	Gastos generales	(10)	476	1.07	1.04	1.11	396	1.27
4.563	1.05	1.06	1.02	Gastos varios	(11)	10	—	0.03	0.10	42	—
344	0.07	0.07	0.12	Amortizaciones	(12)	—	0.03	0.28	0.24	—	0.37
1.144	0.26	0.27	0.25	Costos de transformación (B)	(13)	—	4.38	4.37	4.46	—	5.20
19.279	4.22	4.31	4.25	Resultado de explotación (A)-(B)	(14)	44	0.64	1.20	0.05	1.51	1.04
3.620	0.83	0.86	0.93	Saqueo de la cartera de clientes	(15)	—	—	0.02	0.01	—	—
56	0.01	0.02	0.06	Resultado antes de impuestos	(16)	44	0.27	0.04	0.01	—	—
46	0.11	0.04	0.00	Impuestos de renta	(17)	120	0.31	0.14	0.05	1.07	1.04
4.051	0.93	0.88	0.87	Beneficio neto	(18)	106	0.26	0.11	0.04	0.79	0.82
443	0.21	0.21	0.25	Dividendo	(19)	37	—	—	—	—	—
3.108	0.71	0.67	0.62	Beneficio retenido	(20)	63	—	—	—	—	—
637				Total ganancias	(21)	169	—	—	—	—	—
2.402				% Activos totales medios	(22)		0.45	0.62	0.18	0.47	1.07
	0.48	0.66	0.45	Rentabilidad	(23)		0.26	0.11	0.04	0.79	0.82
	0.71	0.67	0.62	% Recursos propios medios	(24)		3.08	1.04	0.30	6.87	7.20
	9.59	8.58	7.82		(25)						

\*\* Resultados sobre activos totales medios, no add. (27)  
\*\* Resultados sobre recursos propios medios, excluyendo Banco Mas Sarda



GALICIA

VASCONIA

CREDITO BALEAR

ALICANTE

	1981	1980	1979	1981	1980	1979	1981	1980	1979	1981	1980	1979
(1)	35.119			30.770			29.511			25.563		
(2)	1.924			1.775			1.633			2.117		
(3)	4.676	13.3	11.77	11.03	3.783	12.29	10.81	10.25	3.714	12.4	11.21	9.55
(4)	2.942	8.37	6.99	6.48	2.514	8.17	6.64	5.97	2.004	6.69	5.35	4.25
(5)	80	0.22	0.39	0.50	253	0.82	0.87	0.47	173	0.57	0.42	0.25
(6)	1.653	4.70	4.39	4.05	1.016	3.30	3.30	3.81	1.537	5.13	5.44	5.05
(7)	311	0.88	0.98	1.12	458	0.14	1.79	1.51	454	1.51	1.00	0.97
(8)	1.964	5.59	5.37	5.17	1.474	4.79	5.09	5.32	1.991	6.65	6.44	6.02
(9)	866	2.46	2.26	2.39	919	2.98	3.21	3.19	1.019	3.40	3.26	3.97
(10)	389	1.10	1.10	1.05	299	0.97	0.97	0.82	398	1.33	1.02	0.83
(11)	21	0.06	0.03	0.11	19	0.06	0.08	0.12	26	0.08	0.06	0.11
(12)	75	0.21	0.18	0.15	71	0.23	0.22	0.24	51	0.17	0.18	0.20
(13)	1.350	3.84	3.77	3.70	1.308	4.25	4.48	4.37	1.494	4.99	5.12	5.11
(14)	614	1.74	1.61	1.47	166	0.53	0.61	0.95	497	1.66	1.32	0.91
(15)	-3	—	—	0.03	—	—	—	—	4	0.01	0.07	0.02
(16)	-66	0.18	0.07	0.00	-6	0.01	0.02	0.06	-94	0.31	0.05	0.03
(17)	545	1.55	1.54	1.44	172	0.55	0.59	1.01	399	1.33	1.20	0.86
(18)	132	0.37	0.32	0.39	34	0.11	0.14	0.26	118	0.39	0.31	0.25
(19)	413	1.17	1.22	1.05	138	0.44	0.45	0.75	287	0.93	0.89	0.61
(20)	155				109				119			
(21)	258				29				162			
(22)												
(23)	0.23	0.39	0.53		0.17	0.87	0.47		0.59	0.49	0.27	
(24)												
(25)	1.17	1.22	1.05		0.44	0.45	0.75		0.93	0.89	0.61	
(26)	21.46	19.22	20.26		7.77	6.62	14.14		17.20	15.50	12.45	

One of the possible reasons for the slim increase in profits in this group would be the major rise in financial expenses, which rose from 6.68 in 1979 to 7.93 in 1981. These expenses rose more than a point from 1980 to 1981, which means that in real terms the small banks are still the ones that pay the most to attract deposits. Garriga Nogues, Simeon and Galicia pay the most to attract deposits into their coffers; Jover, Comercial Espanol and Credito Balear pay the lowest rates.

#### Financial Revenues Up Sharply

The increase in costs has been accompanied by a similar jump in financial revenues, the average for the 11 banks (excluding Mas Sarda) being 12.64 percent of total average assets, compared to 11.63 percent in 1980. The highest ratio of financial revenues to total average assets is claimed by Alicante, followed by Galicia and Simeon. The gap between the bank with the highest yield on its funds and the one with the lowest is 2.22 points, which indicates that the group has become more homogeneous, inasmuch as the difference in 1980 was 2.32 points.

The financial margin posted gains in 1981. After the drop from 1979 to 1980 (from 4.2 to 4.14 percent), the group of small banks closed out fiscal year 1981 with a net financial margin (provisions deducted) of 4.22 percent of total average assets. If the drop in the margin in 1980 was due, among other things, to the major amounts earmarked for reserves and bad debts, which had practically doubled from the previous fiscal year, the rise in 1981 is due precisely to the drop in funds earmarked for such allowances.

#### Coverage Problems

Twelve small banks earmarked 0.66 percent of their total average assets for allowance funds in 1980. In 1981 these banks allocated 0.67 percent of their total average assets, but if we exclude the Banca Mas Sarda, the ratio drops to 0.48 percent. In absolute terms, this means a drop from 2.555 billion pesetas in allowance funds in 1980 to 2.177 billion in 1981.

The banks with the largest amounts of such funds (aside from Mas Sarda, of course) were Castilla, Alicante and Garriga Nogues. At the other extreme were the Condal, Vasconia and Galicia banks. The impact of the decontrol of bank dividends, which took effect in fiscal year 1981, was hardly felt in this group of banks, which together distributed 637 million pesetas to its stockholders, which is equivalent to 0.14 percent of total average assets, compared to 0.17 percent in 1980.

Amortizations continued high (1.144 billion pesetas in 1981 and 1.059 billion in 1980) as a result of the updating of balance sheets in 1980.

A very significant development was the drop in operating costs of 0.09 percent, reversing the upward trend begun in 1979. They now stand at 4.22 percent of total average assets, instead of 4.31 percent in 1980.



Profits as a Percentage of Average  
Internal Cash Generation: Stockholders  
Doing Better

Banco	1981	1980	1979
1. Castilla	25.47	22.12	27.44
2. Galicia	21.46	19.22	20.26
3. Credito Balear	17.20	15.50	12.45
4. Garriga Nogues	11.37	11.11	7.76
average	9.59	8.58	7.82
5. Vasconia	7.77	6.62	14.14
6. Comer. Español	7.30	7.65	2.74
7. Jover	6.87	7.20	8.12
8. Alicante	5.11	5.11	6.15
9. Cred. Inversio.	4.56	5.05	5.04
10. Simeon	3.08	1.04	0.30
11. Condal	3.06	—	2.90
12. Mas Sarda	—	10.77	9.79

Profits as a Percentage of Total  
Average Assets: Moderate Rise

Banco	1981	1980	1979
1. Castilla	1.46	1.38	1.47
2. Galicia	1.17	1.22	1.05
3. Comer. Español	1.06	1.14	0.51
4. Crédito Balear	0.93	0.89	0.61
5. Jover	0.79	0.82	0.61
average	0.71	0.67	0.62
6. Garriga Nogues	0.69	0.78	0.64
7. Vasconia	0.44	0.45	0.75
8. Alicante	0.43	0.45	0.42
9. Simeon	0.26	0.11	0.04
10. Créd Inversio.	0.25	0.30	0.31
11. Condal	0.20	—	0.22
12. Mas Sarda	—	0.57	0.54

Allowances for Doubtful Accounts and Securities Losses as a Percentage of  
Total Average Assets: Allowances Down

Banco	1981	1980	1979
1. Castilla	0.64	0.80	1.32
2. Alicante	0.62	0.40	0.13
3. Garriga Nogues	0.60	0.72	0.21
4. Credito Balear	0.59	0.49	0.27
average	0.48	0.66	0.45
5. Jover	0.47	1.07	1.27
6. Comer. Español	0.47	0.59	0.55
7. Simeon	0.45	0.62	0.18
8. Cred Inversio	0.34	0.44	0.05
9. Galicia	0.23	0.39	0.53
10. Vasconia	0.17	0.87	0.47
11. Condal	0.14	0.59	0.03
12. Mas Sarda	—	0.78	0.45

## JULY UNEMPLOYMENT FIGURE IS HIGHEST IN SWEDISH HISTORY

Stockholm DAGENS NYHETER in Swedish 14 Aug 82 p 3

[Text] Unemployment in Sweden is now greater than ever. In July 133,000 persons were without jobs, which is 29,000 more than at the same time last year. A doubling of unemployment in the construction sector now threatens this winter.

This was reported by the television [news programs] "Aktuellt" and "Rapport," referring to calculations by the Labor Market Board, AMS. According to these calculations, unemployment among construction workers will amount to 27 percent in certain provinces by January.

## Not Surprised

For most of the country it is estimated that between 10 and 20 percent of the construction workers will be unemployed. Worst hit are Blekinge, the provinces of Alvsborg, Varmland, Vastmanland, Kopparberg, Gavleborg and Jamtland, as well as Norrbotten and Vasternorrland. Close to mass unemployment is anticipated there in the construction sector, and between 21 and 27 percent will become jobless, according to the AMS.

Labor Market Minister Lennart Eliasson (Liberal) is not surprised by the figures.

"We have known that the construction sector is one of our worst problem areas, and this is why the government last spring made some decisions about construction projects which can be started during the fall," he says to "Aktuellt."

The labor market minister does not believe that construction unemployment will be as high as the AMS fears.

He hopes that repairs of older houses on favorable economic terms and with energy saving loans will stimulate that branch of industry. He also wants to provide the AMS with additional resources to counter construction unemployment.

"More money for public works projects must go to the construction sector," he says.

## History in History

"The conservative policies necessarily lead to unemployment," the leader of the Social Democrats, Olof Palme, said in Solleftea on Friday.

"In few nations is unemployment rising the way it does in Sweden, and we now have the highest unemployment in our history."

Olof Palme, who is on a campaign visit to Adalen, spoke at Solleftea's city park to about 1,000 who participated in the rally. Unemployment is the issue now brought up by the Social Democrats in the election campaign, and Olof Palme cited local examples of "Conservative mismanagement," industries and activities which have been closed in the area since he was here during the last campaign: Polarvargen in Junsele, the light metal factory in Langsele, the dairy in Solleftea, the Eiser factory.

"Today, 40,000 young people are without jobs in Sweden," Olof Palme said.

"These are young people in the prime of their lives, who go to the employment office instead of having a job to go to, and they go with the gnawing feeling that when the country is in an economic crisis they are not allowed to help with their own labor."

"We need both further belt-tightening but more elbow-room in the country in order to lift it out of the crisis," Olof Palme said.

11/1/77

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## EMBARGOED EQUIPMENT SENT TO USSR VIA SWITZERLAND

Zurich DIE WELTWOCHEN in German 18 Aug 82 p 19

[Article by Jay Tuck: "The 'Swiss Connection' of the Embargo Smugglers--How Switzerland Is Used in the Illegal Technology Transfer to Moscow"]

[Text] Since U.S. President Reagan has tightened U.S. export regulations for high-technology goods to the East, smuggling NATO-embargoed merchandise has become a widespread--though illegal--business. Under the code name "Project Exodus," a special detachment of the U.S. Customs Service is trying to stop that black market trade which is in part passing through Switzerland.

As Guenter Marwitz sat down behind his desk in the Munich HAT-Express moving firm on Monday, 5 July at 0800 hours, he intended to process as his first shipment a load coming from Frankfurt. The 13 boxes (contents: "computer equipment") had arrived the day before on a Lufthansa truck and were to be immediately transhipped to Fracht AG in Zurich. For Marwitz this was a routine transaction. The fact that the Swiss addressee was merely a post office box firm (P.O. Box in 6301-Zug) bothered him as little as did the customer, a mysterious Mr Gessner. In the moving business you don't ask too many questions. After all, Gessner, an old and well-known HAT-Express customer, had notified the firm by telex, and his name appeared on the air freight manifest.

Marwitz had no way of knowing that Gessner's Munich address (Micrologic GmbH, Taseloplatz 7) was merely a front.

Nor could he have known that the boxes contained strategic embargo merchandise which was to be shipped to the USSR through an international labyrinth of fake addresses and middlemen in violation of NATO export regulations. Only one hour later, as he was about to finish typing the customs declarations, did Marwitz recognize the explosive nature of the shipment: officials of the Munich customs inspection entered his office and confiscated the merchandise.

A similar thing happened to the employees of Apollo Air Cargo a few days later in Frankfurt. A young representative of Trans Travel Expedition arrived on a motorcycle and wanted to pick up 38 boxes (contents: "computer

equipment") and take them with him to Switzerland. But before he could load the boxes and his motorcycle into a rented truck, the Frankfurt customs agents entered the picture.

Both operations were the work of "Operation Exodus," a special detachment of the U.S. Customs, which has the mission of stopping the illegal trade of high-technology goods to the East bloc. Since last October the inspectors have already held up 466 shipments with a total value of more than DM 80 million. Most of them contained electronic gear having obvious military potential.

In this case: four complete PDP-11 computers, manufactured in the United States by Digital Equipment Corporation. Computers of this type are capable of designing manufacturing processes for microprocessors--the key component of all modern guided missile control systems--and are thereby covered by Cocom-Tariff No 1565. Export to a non-NATO country requires special authorization.

#### Swiss Firms Untouchable By Investigators

The first suspicions cropped up last November, when a small Canadian computer firm ordered a PDP-11 from Phoenix, AZ. Toronto's MLPI Business Systems had declared the purchase to be "for domestic use only." However, the order called for models with 220 Volt electric connections, rather than the 110 Volt computers in common use in North America. Thus customs inspectors were in on the case from the very beginning when the hot shipment (weight: 4.6 tons; value: \$445,000) started its travel.

First the boxes were transported by surface by the Alma Moving and Storage Corporation from Phoenix to Toronto. From there they were loaded onto Air Canada flight 872 on 2 July for transport to Frankfurt and Munich. The decision to impound the shipment was made only hours before the computers were to disappear across the border of NATO member FRG into neutral Switzerland. According to the U.S. investigators, they were to be transhipped from Switzerland to the USSR.

While U.S. and Canadian authorities searched MLPI's offices in Toronto and Phoenix and German customs inspectors interrogated movers in Europe, two men in an office in Kreuzlingen kept getting more nervous by the minute. Their shipment from Phoenix was overdue. Fred Schiavo and his partner, German physicist Dieter Enderlein, asked themselves what could have gone wrong. Only when their agent, Gerald Gessner, appeared at the offices of HAT-Express in Munich with a check of the Swiss Bankverein to pay for the freight bill in the amount of DM 8,677.55, did they find out the reason for the delay.

The computers had been ordered by the Swiss Elmont AG in Kreuzlingen and Semitec in Zug, both untouchable for U.S. and FRG investigators in a country which is neither a member of NATO nor a signer of the Cocom treaty. Thus it was the first to talk with Schiavo and Enderlein when I visited their office at Hauptstrasse 23 on a Saturday afternoon.

"Of course we ordered the computers. MLPI acted on our instructions:" Freddie Schiavo, president of Elmont AG and sole proprietor of Semitac, thoughtfully stares out the window onto Lake Constance. "But we had no idea that the PDP-11 is listed on any NATO embargo list."

#### Not Only Small Fry Are Involved

It is difficult not to believe him. Elmont AG delivers 40 percent of its orders to the East bloc, mainly computer equipment. It was also among the first affected by U.S. President Reagan's tightened embargo regulations issued on 29 December in reaction to martial law in Poland. The day after, Elmont lost the export license for delivery of another computer type to the East bloc. It had been, in Schiavo's words, "an established routine business."

Says Enderlein: "The Cocom regulations are obsolete and strategically worthless. Besides, we know for sure that computers of the PDP-11 type have long since been copied in the USSR."

Meantime, the case has been turned over to the Frankfurt public prosecutor's office (file No. 91 JS 19.803) which is investigating violations of foreign trade law. But Elmont AG is by no means the only small computer firm which sneaks embargoed merchandise across European borders. An insider who is fully familiar with the details of Elmont transactions knows that a few German industrial tycoons are participants in computer smuggling: "If a big enterprise signs a contract with the East for machine tools worth DM 30-50 million and a small embargoed computer worth DM 15,000 is a part of that contract, the enterprise will go to great lengths to make sure that the computer is delivered also. But embargo smuggling is a risky business. If the enterprise managers don't want to dirty their own hands they look for a small outfit, preferably a Swiss one, which is prepared to undertake that risk. For a good reward, obviously."

About 150 firms and individuals are enumerated in a confidential "Excluded Defense List" of the U.S. Department of Commerce, because they have neither been subject to criminal sanctions nor have they lost their U.S. export privileges. The fact that this does not only involve small fry became obvious during the visit to the United States by the FRG minister for General L. Otto Graf Lambsdorff was invited by U.S. authorities to attend a seminar on technology transfers to the East. The meeting place for the highly secret get-together: CIA headquarters in Langley, Virginia.

## CRITICAL STATUS OF TEXTILE INDUSTRY SURVEYED

Istanbul DUNYA in Turkish 7 Jul 82 p 2

[Article by Atalay Sahinoglu: "Crisis Bedfellow of Textile Sector for 1981"]

[Text] Developments on the yarn market during the year and one-half since we began the discussion of cotton yarn may be described as follows. The crisis in the cotton textile markets began with the world fluctuations on the domestic market in the first quarter of 1981 and deepened when cotton textile prices fell. The small weaving industry operations, known as the "cottage industry" which dominates the field in the Aegean and southern areas of Anatolia and is separate from the large corporation, came to a complete halt, causing considerable shrinkage in yarn demand on the domestic market. Even so, the export of cotton yarn to EEC countries in particular during the period under discussion and the fact that cotton prices were reasonable helped to keep spinners' problems under control and, especially with the production of high-quality yarn, the businesses which were able to swing their weight over to exports gained a significant breathing space. Meanwhile, wanting to lighten somewhat the cost burdens on exports in the cotton fabrics and garment sector of the textile industry where the chance for exports had opened up and hoping to encourage exports of these products, the government wisely reduced the sales tax on yarn, giving a serious advantage to operations of this type as well as spinners. The sudden spiral (involving speculative elements also) in cotton prices practically on the heels of this, however, brought additional burdens which practically wiped out this advantage for yarn. The customs duties which the EEC began to impose on yarn imports from Turkey early in 1982 and which, after lengthy negotiations, were set at 12 percent were a spinner's nightmare. Fighting to save their lives, the spinners kept producing, hoping to get positive results from various negotiations to enable them to export all their stocks under favorable conditions and, by keeping the supply of goods on the domestic market just high enough to answer their day-to-day financing needs, tried to prevent prices from plunging--at least at home--owing to a flooded market. They were, to use the expression, eating blood while making it look like cherry ice cream. However, growing stocks on the one hand and the EEC customs problem which would not go away on the other were putting the spinners in a worse situation with every passing day. Meanwhile, capacity cutbacks became unavoidable and the slight spurt in domestic demand for reasons we will discuss later was able to provide them support on only one level. The malady



On the yarn side of the textile sector is now in the acute stage, with demand and prices going "soft" in the market term. Nevertheless, those trying to adapt to the new export conditions may gradually come into some breathing space depending on how successful they are. Parallel with this, we believe that with favorably-priced cotton stocks which those whose financial structures allow may build up on the new cotton market opening in mid-September, they will be able to break the strangle-hold a few months into the season.

**Cotton Fabrics:** For the past year and a half in this sector for which 1981 had the worst, most problematical beginning of any in the textile market, industrialists used to the complacent home market have been badly hurt by the wild plunges and price cut-backs on the domestic market. Grasping at straws, they initiated extensive export efforts, but the businesses not skilled in export procedures and the small specialty operations were brought to the point of closing down by the wild plunge in prices. As 1982 began, the big businesses' success at exporting on the one hand and the small operations' deep cuts in production on the other practically wiped out supplies to the domestic market. Despite the totally negative outlook, however, this sector has the greatest export potential of the textile industry and, when the dollar-Deutsche mark balance broke in favor of the dollar, it gained significant export potential as customer demand made a massive shift to our country from the Far East which deals in dollars.

On the other hand, 1981 with its great commercial risks put this sector on the firmest footing it has had for years through measures taken by industrialists and merchants in the sector such as reducing payment terms to reduce risks and being more careful in customer selection. Early in 1982 prices began to rise, not so as to stimulate inflation but to bring them in line with costs, and demand settled down at more stable levels. However, some establishments still have not reached the point of being able to take a deep breath--those with high costs and especially the combined facilities (factories with spinning, weaving and finishing in the same operation) with insufficient net assets which were unable to combat the negative business conditions of the periods of inflation and anarchy, which have failed to move ahead in management development, have been unable to achieve a good balance in stock policies and lack the profitable and high-quality production to allow them to cut costs by keeping inventory low.

**Reduced Supply, Price Ripple:** The facilities which we touched on briefly above whose vital signs were on the verge of stopping, or stopped, last year and especially the weavers and fashion houses which purchase only yarn (about one-third of Turkey's total capacity) are able to work at lower cost and they have begun to revive. Parallel with this, finishers and dyers have also become able to breathe more comfortably. Summing up current conditions, the short supply in this branch of production has been making itself felt for the past few months and demand is stabilizing, but prices are not yet satisfactory. Nevertheless, hope predominates for the winter season starting within a better half of August.

**Cotton Alternatives:** Involved here are the quilted polyester-viscose and polyester-cotton blends, polyester-wool blend and 100 percent wool fabrics.

We may say that the supply-demand-price balance in the wools and wool blends is better than in the others owing to the tighter production capacity. Production of the quilted polyester-viscose and cotton blends is more plentiful and the supply-demand-price balance may be harder to come by. The establishments producing goods in this category have huge capacities and some of them turn out cotton manufactures on a large scale indeed. Those in this type of industry with high production figures in heavy cottons have to take good advantage of export opportunities for the reasons discussed above. Costs and sales prices have not yet come into balance on the goods they would put on the home market. The producers of outerwear fabrics whose production of heavy cottons is low and who manage to export most of it are able to provide for their business' export needs with the quilted fabrics without bothering with exports of the fabrics with weak exportability and to make the most of their fabric capacity on the more stable home market. These are the businesses with the best prospects for today.

While it would seem well to reiterate our view that the most important thing industrialists have to do in the textile industry whose path is still strewn with pitfalls despite any measures and upbeat trends is to get the factories operating efficiently, we cannot help but mention also the matter of risk control and guarantees and the commercial advantage in the absence of serious guarantees both of reducing risk longevity by the restriction of payment terms and of spreading the risk involved in collecting payment on unguaranteed contracts by increasing the number of customers.

Though this ends the discussion of textile-related developments, we would like to mention a routine topic involving the general economy as it bears indirectly on our subject matter.

For the past few months, price increases have exceeded hoped-for limits and the inflation rate has begun a steep climb, surpassing the point where it was hoped it would be reined in, and this is being explained in the newspaper columns by certain of our economists by the continuing increase in demand. The diagnosis may be correct where the products involving daily human needs and livelihood are concerned, such as food (bear in mind exports of them also). But we believe there may be a point of error in arriving at the same diagnosis for industrial manufacturers which are suffering such hardships owing to the present lack of demand.

Everybody but the economists has now become aware of the importance of the rule of supply and demand in the emergence of the price on any product produced. Even so, when the State Economic Enterprises, the establishments which produce industrial raw materials, take economic measures, unilaterally raising prices on their products regardless of demand, when financing costs are high, when the price of foreign exchange goes up and the prices of a series of industrial inputs which are always dependent on it rise to equal or exceed the product itself, when the prices of major inputs such as labor and energy must remain fixed and when the costs of the goods produced rise significantly regardless of demand, it becomes inevitable that the businesses still have to pass these increases on to their sales prices. The inability to reduce inventories at a time of lack of demand despite passing

on the increases puts an overwhelming segment of industry in an increasingly difficult position. The monetary policy is what has been set as the general key to the economy at present. Yet guiding the entire economy by a single measure however strong it may be is limited to a given time period.

If, during this period, other major measures are able to back up the monetary policy, the results may take a positive turn. Otherwise, the gradual increase of the weight of other restraints tending to correct the economic balance may suddenly backfire. Still, rising prices, indeed even the thought of a return to the vicious circle of inflation, is a nightmare for everyone who remembers the past. We would hope that our country, with its abundant potential, would not find its economic horizon again obscured by the dark cloud of this nightmare.

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## GREATER ATTENTION TO WHEAT EXPORT URGED

Istanbul CUMHURIYET in Turkish 17 Aug 82 p 6

[Text] At this moment, all economic entities in Ankara and particularly the Ministry of Finance and the Ministry of Commerce are intensely focusing upon the issues raised by wheat. As the governmentally determined prices of agricultural products are announced one after another, wheat seems to represent a stumbling block for everyone. Suddenly, new problems have emerged in connection with wheat which had seemed to be pushed in the background by issues raised by things such as certificates of deposit, bank mergers, money and exports. Actually, this year's wheat harvest is approximately two million tons larger than last year's harvest of 13.5 million tons. It is expected that this year's harvest will easily exceed 15 million tons. Consequently, there are no problems from a standpoint of production. Nevertheless, this is not the whole story.

In what is a very interesting development, it has been announced that no wheat export agreements have been achieved in spite of the fact that we have long since entered the second half of the year 1982. While agreements that were initiated last year remain in effect, no additional agreements have yet been concluded. The Ministry of Commerce is putting its entire strength behind a search that has been primarily targeted towards the nations of North Africa. The ministry is pursuing new export agreements, but as of today, no positive results have been obtained. This situation constitutes the first important problem affecting wheat.

The lack of exports promptly raises a second problem concerning wheat. The state has not been able to pay its debt to growers. This has been caused by the absence of export earnings as well as the domestic money shortage. Having taken this situation into consideration, the Agri-

cultural Bank has postponed the payment dates on its loans to growers. While this is a positive development, growers do not seem to be satisfied with the overall situation because they have yet to obtain anything in return for their labors and their crops. According to information that has reached us, the state is to pay approximately 60 billion liras for all agricultural products. From this amount, 10 billion liras are to be paid to wheat growers. It seems that so far only 4 billion liras have been paid, and a government debt of 6 billion liras remains unpaid. This therefore, constitutes an "unanticipated problem" for Finance Minister Kafaoglu. Where is he to find 60 billion liras? How is he to promptly pay 6 billion liras to wheat growers?

It seems rather easy to say that a sum of 60 billion liras does not represent much for a state. Nevertheless, the matter of the money supply represents the other face of the coin. According to indicators used by the Central Bank of Turkey, the volume of money in circulation at the end of July stood at 467 billion liras and compared to 413 billion liras at the end of June. Currently, the figure is hitting the level of 500 billion liras. Following a 17 percent increase during the first six months of 1982, the picture revealed by the balance sheets of the Central Bank of Turkey indicates that money in circulation has once again increased by that amount over the last two months. In other words, it seems very unlikely that given "the objective of reducing price increases" Finance Minister Kafaoglu will turn towards the resources of the Central Bank of Turkey to repay outstanding debts to growers. However, it also seems that just before the popular referendum on the Constitution which has been firmly scheduled for the month of November, he has no choice other than turning towards the resources of the Central Bank of Turkey.

Actually, the situation is very interesting. While the level of production has exceeded expectations, sales have proved impossible. While there is a willingness to compensate growers for their labor, there remains a concern about "spurring price increases." While the payment of what is owed to peasants is being postponed, additional resources are still felt to be necessary. In the midst of all of this, base price increases for agricultural products are being restricted + approximately 25 percent. In general, such an increase falls short of other price increases... It seems that regardless of the issues involving banks, interim models and brokerage firms, Finance Minister Kafaoglu is having to give a great deal of thought to the wheat problem.

## PRIVATE SECTOR WEIGHS IN ON STATE ECONOMIC POLICY

Istanbul CUMHURIYET in Turkish 17 Aug 82 pp 1,11

[Text] We discussed the latest economic developments and forecasts with Ali Kocman who is the Chairman of the Steering Council of the Turkish Industrialists' and Businessmen's Association. Kocman said that "the government should definitely disclose the names of the private firms to which it is providing assistance as well as the amounts and the conditions that are involved." Kocman added that "such a disclosure should take place without delay and that repayment plans should also be revealed." Kocman is one of the foremost defenders of the "philosophy of 24 January 1980." He believes that it is not appropriate for the government to accord the same treatment to private sector firms whether or not they follow rules (i.e. pay their Social Security obligations on time), adapt to changing conditions or bring some order into their affairs. When the matter is perceived from this vantage point, it becomes clear that the government should exercise great caution in extending a helping hand to firms in difficulty and that the principle of public disclosure must be followed.

It appears from several statements that various segments within the private sector are highly sensitive towards this matter. A number of speakers at the assembly of the Istanbul Chamber of Commerce said the following: "Earlier, we used to criticize government aid to public organizations. Now we are faced with the opposite and the government is extending assistance to private organizations. Are we not going to object to this?" Nuh Kusculu who is Chairman of the Steering Council of the Istanbul Chamber of Commerce maintained that "the rescue of organizations in difficulty through the imposition of new taxes could be acceptable under no circumstances." Turgut Ilhan who is Chairman of the Steering Council of the Ankara Chamber of Commerce said



that "any excesses in extending the helping hand of the state to organizations in crisis could bring about a decrease in efforts by these organizations to adapt to changing conditions and could result in the squandering of resources and the acceleration of inflation." Undoubtedly, these statements constitute interesting examples.

It is also true that the powerful industrial and financial groups that have sensed the possibility of government assistance are determined to pursue the matter and obtain as much assistance as possible through the most favorable terms. Given this environment, it seems inevitable that among the issues confronting Finance Minister Kafaoglu, the matter of rescuing financially troubled firms or "lame ducks" will occupy a foremost position. It is also clear that regardless of their direction, his decisions are likely to irritate various segments of the private sector.

The formulation of objective standards to determine the firms that should receive assistance as well as those that should not would undoubtedly represent the most valid solution. This would constitute the exact opposite of making such a choice on the basis of various pressures and influences. For example, EEC guidelines concerning this matter stipulate that "the assistance to be provided should seek to bring solutions to structural problems rather than ensuring a continuation of the status quo or a postponement of change." The guidelines emphasize that the assistance to be provided should not upset the existing competitive parity among organizations, should be of temporary nature and should be closely monitored to ensure that it is utilized for the purposes for which it is intended. In other words, these guidelines firmly deny government assistance to organizations that do not have the capacity to generate jobs or that lack prospects for long-term survival.

The creation in Turkey of "private sector State Economic Enterprises" with government assistance not only violates EEC guidelines and certain principles of the private sector but also falls contrary to International Monetary Fund and World Bank guidelines to which we have committed ourselves through letters of intent. In other words, Kafaoglu is being confronted by a truly difficult matter.

Then there is the problem of enforcing the standards once they have been agreed upon. There is talk of establishing a special bank for the purpose of consolidating the debts of



the banks in financial difficulty and resolving the problems created by currency fluctuations. Nuh Kusculu had questioned the need for a new bank to resolve these problems and has expressed concern about finding the resources required to establish such a bank. Speculation is continuing about the nature and the function of the future bank.

Naturally, the banking aspect of the matter carries a significance of its own. It is emphatically being claimed that following the order to prevent further bankruptcies among banks and brokerage firms, certain new measures are to be taken. We should quickly state that while the wait to find out about the nature of these measures continues, a large group within the private sector does not have anything nice to say about the banks. The prevailing opinion within the private sector is that the measures that will emerge following such a wait should go beyond the rescue of some banks from the edge of a precipice and should also include means to remove the banking system from the control of a small number of brokerage firms.

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## BACKGROUND ON CUT-OFF OF TURKEY-EEC TALKS GIVEN

Istanbul MILLIYET in Turkish 17 Aug 82 p 9

[Text] The ten year controversy between Turkey and the EEC over exports of cotton fiber, textiles and clothing remains unresolved in the aftermath of last week's meeting in Brussels focusing on these issues. During the meeting, "the EEC refused to initiate discussions on measures restricting Turkish exports of clothing and objected to the development of a comprehensive solution that would encompass all textile products. When the Turkish delegation to the talks transmitted to the Ministry of Commerce details pertaining to the EEC refusal, Ankara gave the order to "abandon the talks and return home." EEC officials had been on the verge of obtaining all the concessions that they had wanted from the Turks and remained confident that the restrictive measures that are in contradiction with the joint protocol would be maintained. The officials also wanted to lift the 15 percent tax imposed by Turkey on iron and steel products originating from the EEC and "expressed sorrow" to the new Minister of State Sermet Pasin that "there had been no willingness to reach agreement over this matter."

It is well known that over a period of nearly 10 years, the EEC has acted in total violation of its agreements with Turkey by placing numerical quotas as well as imposing prices that exceed world market prices in the case of certain products. At first these measures affected cotton fiber while subsequently encompassing some of our textile products. This year, the affected exports have been clothing products prepared for export in response to orders from buyers in their (EEC) countries.

Turkey had participated in last year's efforts to reach agreement even though this constituted a violation of Article

24 of the agreement, and had voiced no objection to private discussions over the numerical quotas between the EEC commission and our export groups. Upon conclusion of these discussions, Turkey had agreed to an export level agreed upon by the participants. Our exports of cotton fiber in 1981 amounted to 92,000 tons.

This year, the EEC used similar arguments to impose a new numerical quota as well as a price hike. Moreover, the EEC placed a 12 percent anti-dumping tax on Turkish goods and interrupted negotiations at the last minute even though agreement had been reached with Turkish exporters over the amount of exports and the Turkish government had conditionally agreed to the price increases. In addition, the EEC had gone as far as adopting restrictions designed to bring a halt to Turkish exports of clothing. In response, Turkey imposed a 15 percent tax on all iron and steel products originating from the EEC. This measure went into effect at the beginning of April.

During the talks that began last week in Brussels between the Turkish delegation and the EEC commission entrusted with the matter, EEC representatives presented Turkey with the following requests:

- 1) The acceptance of cotton fiber prices requested by the EEC,
- 2) The acceptance of a 75,500 ton limit as a restriction on exports during the year 1983,
- 3) The removal by Turkey of the 15 percent tax imposed on iron and steel.

The EEC agreed to remove the 12 percent anti-dumping tax upon compliance with these requests. The Turkish delegation indicated that while agreement had been reached over prices and amounts for exports during 1982, similar levels could not be established for 1983 without knowledge of the figures pertaining to supply and demand during that year. Moreover, the Turkish delegation pointed to the fact that the textile issue separating the two sides also encompasses our exports of wool clothing. The delegation requested that "the talks be conducted in a manner encompassing problems within the textile field in its entirety and that restrictions on our exports of clothing also be covered by the discussions." Following the EEC's refusal to accept this request, our delegation was instructed to abandon the discussions and returned without signing the agreement. Turkey believes

that it will suffer from long-term losses as long as a comprehensive agreement is not reached over the EEC restrictions that are becoming more numerous and prevalent with each passing year.

Pasin has received detailed information concerning this unfavorable development in Brussels and has invited exporters as well as officials from offices that are involved with the EEC to a meeting that will take place tomorrow. It is being announced that the problem will be discussed in all its aspects and that Turkey's future policy will be determined subsequently.

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## EC'S DAVIGNON ON NEED FOR COMMUNITY ENERGY STRATEGY

Frankfurt/Main ELEKTRIZITAETSWIRTSCHAFT in German 24 May 82 pp 351-354

[Article by Count Etienne Davignon, vice chairman, Commission of the European Community, in charge of industry, energy, and research, Brussels, Belgium: "European Energy Strategy"]

[Text] The Community has about 10 million unemployed. This is no wonder if one keeps in mind that the number of jobs over the past 10 years in Europe went up only 2 million whereas it rose 5 million in Japan and 19 million in the United States. The sore point in Europe remains its great vulnerability on the energy sector. Europe depends for half of its supplies on imports and as crude oil importer it is still in first place worldwide. While oil prices keep rising, investment activities, which are the key to our security, are impaired by a series of uncertainty factors, such as price developments, taxation, and technological risks, plus profitability considerations and the public's reaction. The energy investments of the Community's countries will during this decade at best amount to 2.2 percent of their gross domestic product as compared to 3-3.5 percent in Japan and 4 percent in the United States. Energy strategy plays a main role in resolving the general economic issues. A strategy, in the opinion of the European Commission, does not mean that one should have a common policy in the energy sector, similar to farm policy, but rather that one should be able to carry out actions coordinated on the Community level. To increase the safety of our energy supply and thus to secure the future of our economy, the member states and the Community must concentrate their efforts on important common goals. By 1990, it will indeed be necessary to come up with about DM 1,200-1,800 billion for the investments required in Europe for energy source diversification and energy savings.

The challenge springing from the energy issue continues to be particularly great for the European Community and its member states. The Community is the world's biggest oil importer. The Community's oil bill, expressed in dollars, increased eight-fold between 1973 and 1981 although net imports declined by 40 percent. Reasons for this decline were the increase in domestic production

(North Sea), the conversion from petroleum to other energy sources, measures to rationalize consumption, but also the decline in the demand due to the recession. But so long as durable structural adjustments are not made, there will be a danger that, in case of a revival of economic activity, the oil demand will again go up. Besides, the European balance of payments, which due to oil imports already shows a deficit, will at all times be placed in serious difficulties due to a rise in oil prices, either because of a corresponding decision by the exporting countries, a rise in the value of the dollar--since oil prices are expressed in dollars--or the growing energy demand of other importing countries.

Today, the solution of energy problems is at the very focus of every strategy aimed at reducing unemployment and inflation and at developing a new industrial dynamics. In this respect, the Europeans have a common lot: joint action can open up new prospects for the future for them. Here is why:

Even if the European countries depend on energy imports to differing degrees--the Netherlands and the United Kingdom have considerable resources of their own--all of them are nevertheless highly vulnerable on that score. Their economic situation depends on their energy supply and, within the context of the Common Market, also on the economic strength of the partners which can be impaired by excessively high oil bills. If it is not possible and if moreover it is not desirable to centralize all decisions and measures, especially since it is also necessary to pay proper attention to national peculiarities, all member states nevertheless do have a common interest in making sure that energy policy will have the same effects throughout the entire Community.

An effort coordinated on the European level offers greater efficiency. In research, for example, it can avoid a scattering of efforts or overlaps. It opens up a bigger market for the new technologies. In the sector of investments or taxation, it can contribute to the preservation of a certain continuity regardless of temporary fluctuations in the economic situation in the individual member states. Finally, the Community--if it speaks with a single voice--can get much more of a hearing among the energy-exporting countries and the other important importing countries. Likewise, it can help the non-producing countries of the Third World in solving their energy problems.

In the past, it had been hoped that it might be possible to found a common energy policy. The European Community however is of the opinion that such a cumbersome machinery (that is to say, everything having to be run correctly from Brussels) is not the proper solution. It is not so much important now to have a common policy, similar to agricultural policy, but instead it is important to make sure that the countries can appear to be standing together at least on the Community level.

Cooperation in this field of energy however developed on the basis of common goals which were established in 1974 and which were spelled out in greater detail in 1980 for the period leading up to 1990. The following has been provided accordingly: the average ratio between the growth of the GNP is to be reduced to 0.7 or less through rational energy utilization; the member states should draw up overall problems of comparable efficiency for energy savings;



petroleum consumption should be cut to about 40 percent of the gross primary energy consumption; solid fuels (for example, coal) and nuclear energy should cover 70-75 percent of electric power production; resorting to renewable energy sources should be stimulated; energy price policy must be coordinated with the energy-policy goals of the Community.

The Community will have to use all available means to reduce its dependence on oil. In order to be able to maintain its natural gas consumption (about 18 percent of its energy requirements), it must double its imports until 1990. Its coal consumption must be increased by 2000 from 314 million tons (about 21 percent of its energy requirement) to about 500 million tons, half of which will have to be imported. Besides, it must expand the renewable energy sources (solar energy, geothermal sources, water power, etc.) whose potential of course will grow comparatively slowly. Finally--since no energy source may remain unused--it must promote the use of nuclear energy especially since it plays a big role in industrial competitiveness. With one kilogram of uranium, one can, at one-third of the price, generate as much electricity as with 10 tons of petroleum (or 600 tons, if fast breeder reactors should some day be available). The share of nuclear energy out of electric power production would seem to rise from 16 percent (in other words, 6 percent of the total energy output, whereby the share of the individual member states however varies greatly) to about 38 percent in 1990. This development however must always--and that is an absolute requirement--be coordinated with the requirements for security, health, and environmental protection, in which connection the Community is making a considerable research effort.

The Community's objectives however can be attained only if the ten members states and the Community as such always coordinate their actions when this promises to produce greater efficiency. Common measures here above all are required in the following five sectors: investment activity, prices and taxation, research and development, as well as technological demonstration, measures for protection against a destabilization of the markets and foreign relations.

#### Investment Activity Promotion

As key factors in the adjustment of the European economy and the maintenance of its competitiveness, the diversification of energy supply and the more efficient use of energy call for comprehensive investment efforts which must not be allowed to abate even in case of short-term fluctuations in the economic situation or in case of budget problems. The energy investments of the Ten are presently stagnating at around 1.6 percent of their BIP (gross domestic product) and will probab'ly not exceed 1.2 percent on the average by the end of the 1980's; on the other hand, the United States wants to spend 4 percent and Japan wants to spend at least 3 percent of their BIP for energy investments. In Europe, the results under certain circumstances will fall below expectations. Investments in the sector of coal and nuclear energy are so far being carried out only hesitantly due to security-policy and ecological objections from the public. Investments aimed at the more efficient use of energy are also running into numerous obstacles. Uncertainty regarding long-term price development in the individual energy sources, excessively slow



profitability materialization, sometimes insufficient education and information, unsuitable financing terms, high and fluctuating interest rates, accumulation of standards in individual countries which block the markets off against each other. Measures are required on various levels to overcome these obstacles:

Improvement of general economic climate;

Guaranteeing greater coherence of policies in the sector of energy prices and energy taxation;

Facilitating the increased use of nuclear energy and coal through additional European efforts in the field of research and safety standards but also through balanced indoctrination on the advantages and disadvantages of the various possibilities;

Promotion of new energy sources, of modern energy technologies, as well as efficient energy use through increase in the sector of research, development, and technological demonstration through better briefing of the public and more thorough training of experts, through adjustment of standards and miscellaneous legal regulations, as well as the flow of funds, bonuses, and other financial incentives. Beyond that, the decisions would have to be more decentralized, the European Market at the same time however would have to be made more permeable through the establishment of common standards. The measures taken by the Community until now in this field among other things concern an increase in the output of heat generators, heat insulation of buildings, reduction in fuel consumption of motor vehicles, information on energy consumption of electric household appliances.

Promotion and facilitation of financing of energy investments:

The Community is already supporting the financing of nuclear power plants, of plants for the generation and transportation of hydrocarbons (oil and natural gas pipelines), the equipment and modernization of coal mines, the conversion of oil-operated plants to coal, as well as various undertakings concerned with energy savings, above all in industry. The loans from the EGKS, from Euratom, from the European Investment Bank, and the New Community Instrument for Loans (NGI) in 1981 came to a total of about DM4.5 billion in the energy sector.

The requirement however is still tremendous but more must be done here. In the nuclear energy sector--about whose objectives, investments, and effects on the general economic balance the Commission will publish regular reports--the important thing is to promote uranium prospecting, to continue the construction of nuclear power plants (for this purpose, Euratom's loan capacity has just been doubled), and to create plants for the intermediate storage and reprocessing of irradiated fuels, whereby the member states should proceed on a Community basis as much as possible. In the coal sector the important thing is to promote the conversion of boilers in industrial enterprises, public buildings, and district heating networks. Ports and other transportation facilities must be created and the European coal mines must be

modernized; they can again be made profitable in many cases through investments and measures aimed at increasing their productivity. Besides, the prospecting and utilization of European natural gas deposits as well as the development of new energies should be promoted within the context of a common concept which would enable the member states to make faster progress. Finally, European agriculture should be urged to produce raw materials for energy procurement (fuel can be obtained from certain plants) and to develop energy-saving methods and processes.

Efficient energy use requires special efforts: investments in this sector by 1990 could come to about DM600 billion, in other words, 1 percent of the Community's BIP (as compared to the present figure of 0.4%). If the energy yield of the European enterprises could be improved with the help of these investments, if their modernization could be facilitated and if their competitive capability could be enhanced, and if new markets could be opened up for new products and methods and if the balance of payments could be stabilized, then it would be possible to create 300,000-500,000 new jobs by 1985. But to achieve that, the ten member states would have to concentrate their action and coordinate their steps with each other. The Community is in favor of making methods and mechanisms, which have already been applied successfully in some member states, accessible to all countries (improvement of flow of funds, education, information, etc.). By increasing the funds of the NGI, the Community will increase its own contribution to these efforts; if, in the process, it gives priority to regions with the greatest need and the least financial resources, then it can at the same time promote the convergence of the European national economy.

#### Realistic and Transparent Price Policy

Energy costs have a differing effect but they often quite considerably influence the production costs. Energy prices therefore influence industry's competitive capability both between the member states and in dealing with third countries. It is also important to make sure that the prices will give the consumer a reliable reference point concerning long-term market development and will encourage him to make suitable investments. Measures which keep prices artificially low must therefore clearly be recognized as such and the price difference between the member states must be gradually reduced, to the extent that it is not based on genuine cost differences.

In order to arrive at greater coherence in price policy and its application, it is first of all necessary to assure greater transparency of markets. The Community has already introduced an information system for a whole series of energy sources. In certain sectors, in which the transparency of prices is particularly problematical (gas, electricity, industrial supply, etc.), this system however must be further improved.

But that is not enough. Energy prices are entirely too frequently influenced by the differing price policies of the member countries, the financial structure of the enterprises in the energy sector, or their bookkeeping practices; it even happens that prices are kept below economically justifiable levels generally or, intentionally, only for certain consumer groups. The

European Commission is striving for greater coherence in price development in the case of the individual energy sources. It would like to create a genuine common energy market on which price differences between the individual countries would be based only on the local advantages (quality of plants, transportation costs, etc.) or priorities in keeping with the objectives of the Community (reduced dependence on oil, etc.). It is furthermore necessary to make sure that individual government measures depending upon the particular economic situation and aimed at price controls will not run counter to common energy-policy goals.

Beyond that, the valuation sometimes considerably influences final consumer prices. The oil sector here deserves special attention. To avoid competition distortions, the European Community is therefore pleading for a gradual equalization of individual government taxation systems. Taxation must not be used to create price differences between member states; it must neither stand in the way of an adjustment of prices to the long-term market conditions, nor a price gradation between the individual energy sources which is an incentive for energy savings and for conversion from oil to other energy sources.

#### Promotion of Research, Development, and Technological Demonstrations

Research, development, and demonstrations--the latter is supposed to test the industrial and commercial viability of new methods and technologies--are important factors in industrial innovation and in economic growth and therefore demand considerable financial efforts. The Community's measures in this field make it possible, with the funds used, to draw greater generalizations, to carry out projects which go beyond the possibilities of an individual member state, to prevent the waste of money, above all through overlapping efforts, more widely to disseminate the results, and to make better use of the dimension of the Community market:

In 1981, the Community's funds for research, development, and demonstration in the energy sector came to about DM800 million. That corresponds to about 10 percent of the total public aid for energy research in Europe. This means that European research activity is coordinated for the greater part. The most important current programs among other things extend to nuclear safety (reactor safety, management and storage of radioactive waste, surveillance of fissile substances, radiation protection, etc.). Controlled nuclear fusion (in this field, European research is completely integrated). We must also mention here coal and new energy sources. The demonstration projects concern the sectors of hydrocarbons (particularly, opening up underwater deposits), coal (coal liquefaction and coal gasification), geothermal sources, solar energy, and energy savings.

But here again, more must be done. The Community's funds for research and demonstration should in the coming years be increased considerably. Stepped-up efforts are required in the following sectors: efficient energy use, renewable energy sources, nuclear fusion, nuclear fission (above all management and storage of radioactive waste), coal (solution of ecological problems, use in the form of gas, etc.). In addition to research and demonstration, it is also necessary to promote the profitability and effective utilization

of new technologies as well as the modernization of the production machinery through better dissemination of knowledge and development of European standards.

#### Precautions against Destabilization of Markets

As we were able to see after the events in Iran in 1979, a limited and temporary restriction in oil supplies or even the mere danger of such a restriction can trigger a sudden rise in oil prices regardless of the actual market situation. Only a Community standing united will be armed against such a situation:

A system for the storage of fuels at power plants (requirement for 30 days) has already been introduced.

In the oil sector, an additional system was introduced for mandatory stockpiling (requirement for 90 days) in case of a considerable supply shortfall; besides, in case of crisis, a special regulation was issued for the surveillance of trade and a plan was prepared for a general cutback in consumption. These precautions, adopted on a community basis, were coordinated with the other major industrial countries (the United States, Japan, etc.). In addition, the community wants to provide for a series of measures which, in case of market disturbances due to a limited supply shortage, can be carried out quickly. Here again, common action by all industrial countries would be welcomed.

Looking at coal and natural gas, supply dumps and precautionary measures to cope with crisis situations might also prove very useful. The Commission furthermore recommends that certain European natural gas deposits not be worked for the time being. Supply networks should be connected with each other and with large-scale consumers which can switch from gas to coal or petroleum and which can enter into cancellable contracts on a larger scale.

#### United Action on International Level

Energy supply security justifies not only international measures but also calls for a differentiation of imports, the establishment of durable relationships with the exporting countries, and a dialogue with the other important importing countries. Community strategy must therefore continue to work on the international level where the combination of 270 million European consumers facilitates a balanced dialogue.

In the nuclear energy sector, the Community was able to enter into an agreement already with the main supplier countries (Australia, Canada, the United States) which guarantees a certain degree of stability in the supply; but we must make sure that the individual users within the Common Market will not be discriminated against. In the coal sector, we should try to develop consultations and long-term agreements with the main supplier countries which include the above-mentioned countries. In the natural gas sector, in which the Community will increasingly depend on imports (from Algeria, Norway, the USSR, etc.), it will be necessary to achieve coordination on the Community level before the most important contracts are signed.

The Community can also contribute to the relaxation of energy-policy compulsions through closer cooperation with the other importing countries. At the 1979 Tokyo Economic Summit, the United States and Japan agreed with the Community to establish an upper limit for their oil imports until 1985. That leaves us with the non-producing countries of the Third World whose requirements will exert ever greater pressure on the world market. The Community and its member states have made a significant contribution to opening up energy sources in the Third World: in 1980, European subsidies in this sector came to almost DM1.7 billion. The developing countries anxiously wait to see how the Europeans will react to the energy problem. The oil requirements of those countries, which can be met only through imports, will almost double by 1990, in other words, from 4.5 million barrels per day to more than 8 million barrels per day.

This kind of increase in the demand will further accentuate the pressure on the oil market toward the end of this century; it is therefore in the common interest of the industrial nations and the oil-producing countries to reduce this pressure. But that should not lead to a decline in economic growth in the developing countries because that would slow down the expansion of world trade and thus also our own upswing.

In the light of basic considerations and legitimate individual interest, the oil-producing and the oil-consuming countries must thus find a solution to this important problem.

All participating countries, the raw material suppliers, the industrial nations, and the developing countries, now have had more than enough time to come to grips with the energy problem in a context with the world economy. The time of rhetorical finesse is over.

5058

CSO: 3101/624



## BRIEFS

ENERGY FUNDS BILL ADVANCES--Poul Nielson, minister of energy, again had to yield to the Finance Committee of the Folketing. To carry through an application for 45 million kroner, he has accepted that the government grants to alternative energy projects can also be directed to areas supplied with natural gas. In reality, this step means that the minister of energy has postponed a decision concerning regional government subsidies for energy projects. The application covers the period to the end of 1983. At a Finance Committee meeting shortly before the summer recess, Poul Nielson would not yield to the Committee. In a longer consultation he explained the background for the application, but the Committee wanted a rider which Nielson could not accept. The task of "softening" the minister was given to Henning Jensen [Social Democratic Party], chairman of the Finance Committee. The rider on Nielson's application says that government funds should also be extended to collective and combined energy projects "after a concrete evaluation has been made, taking into consideration, for example, the plans for heating energy." The application—with the rider—will be discussed at an extraordinary Finance Committee meeting on 30 June. [Text] [Copenhagen BERLINGSKE TIDENDE in Danish 22 Jun 82 p 7] 9862

NATURAL GAS PIPELINE PROGRESS--The building of D.O.N.G.'s large natural gas pipeline has now reached Funen. Scan-Pipe, the engineering consortium, yesterday began construction on the Funen side with the transfer of the first welders and a large part of the special equipment needed for laying the natural gas pipeline. This took place in spite of a delay of laying down the pipeline in Little Belt. P. Knutssen, president of D.O.N.G., says that the delay is caused by unexpectedly large rocks in the cleavage on the bottom of which the pipeline was to be placed. The project of laying down the 80 centimeter high pipeline under the Belt was planned to have started yesterday, but now it is not expected to start before the weekend, dependent on the approval of the Energy Committee. The construction is done by a consortium with Kampsax as one of the participants. At the same time, another consortium, with Monberg and Thorsen, C.G. Jensen and others as partners, has started moving equipment from the Kjaergaard Plantation on the North Sea coast to Sealand to prepare taking ashore the pipeline. The consortium has just taken ashore the oil and gas pipelines from the North Sea where the project is being continued while the D.O.N.G. still considers what is to be done with the oil pipeline where cracks have been found. [Text] [Copenhagen BERLINGSKE TIDENDE in Danish 23 Jun 82 p 7] 9862

STATE. MOLLER AGREE ON CONCESSION--Poul Nielson, minister of energy, has now approved the terms for the return of fifty percent of A.P. Moller's concession which was given back 1 January 1982. According to the Department of Energy, this happened after negotiations Tuesday and Wednesday, and, contrary to expectations, the case will not be settled by arbitration. The conflict was over the form of 16 out of the 216 blocks to be returned to the state. The minister of energy has earlier characterized the form of the blocks as a "pure jig-saw puzzle." The approval means that the Danish state formally possesses one-half of the North Sea concession. It is expected to be offered to new concessionaires. The concession terms are expected to be ready by fall. The preparations for a settlement by arbitration concerning the areas still held in concession by A.P. Moller are not affected by the new agreement. [Text] [Copenhagen BERLINGSKE TIDENDE in Danish 24 Jun 82 p 3] 9862

GASOHOL TO REACH CONSUMERS--Norsk Hydro, the oil company, says that in a couple of years we will be driving on 96 percent gasoline and four percent wood alcohol, produced from either coal or natural gas. For one and a half years, the company has tested the mixture here in Denmark--almost half a million kilometers with 70 different cars. Norsk Hydro has conducted the tests in cooperation with the Institute of Technology and the Ministry of Energy. Poul Nielson's ministerial car is one of the 70 cars driving on a mixture of gasoline and methanol. Jan O. Froshaug, president of the oil company, says, "All results show that it is quite feasible to mix four percent methanol with gasoline. It has no negative effects, and methanol has the advantage that it can be made from other products than oil. However, before we 'launch ourselves' into the mixture, we must conduct tests of transporting the wood alcohol by ship. Besides, the oil companies have to agree on the mixture. We cannot start selling methanol-gasoline (gasohol) on our own." The mixture has been tested here for 16 months in 43 different car models. Only two cases with technical problems were registered--"mere trifles," according to Norsk Hydro. The mileage of the test cars was not reduced even if the gasoline was 'stretched' with wood alcohol. Tests have been conducted with mixtures containing up to 15 percent methanol, but the researchers have found that four percent makes the best mixture. In Brazil, most cars drive on one hundred per cent alcohol derived from sugar cane. But this model is not applicable to Denmark or Europe, since enormous areas would have to be planted with the so-called "green gasoline." [Text] [Copenhagen BERLINGSKE TIDENDE in Danish 24 Jun 82 p 6] 9862

CSO: 3106/135



## REPORT ANALYZES SAVINGS, RESULTS OF CONSERVATION PROGRAM

Helsinki HUFVUDSTADSBLADET in Swedish 12 Aug 82 p 9

[Article by B.S.: "Difficult to Measure the Result; The State Has Invested 3 Billion Marks in Energy Savings"]

[Text] Since the mid-1970's the state has invested 3.2 billion marks in subsidies and loans aimed at reducing energy consumption and increasing the use of domestic fuels. With this money it has been possible--or it will be possible--to reduce energy consumption by 3-5 percent and to increase the use of domestic fuels by 2 million tons of oil equivalents on an annual basis.

These figures appear in a report published Wednesday by the Ministry of Trade and Industry. The study endeavors to evaluate the effects of the government's energy financing and the grade given to it is quite good. However, department head Taisto Turunen, who led the work on the report, believes that a great deal remains to be done.

"The energy support system is split up and divided between many authorities, and in many cases it has been difficult to measure the actual effects of the energy subsidies and loans."

#### Rapid Growth

Subsidies for energy investments is a form of support which has grown rapidly in the last few years. The goal has been to reduce Finland's dependence on oil, to favor domestic sources of energy and to assure the country's energy supply.

In practice, the subsidies and loans were intended for industry, agricultural dwellings and residential areas. At the same time individual homes and buildings received subsidies aimed at reducing heating costs.

The energy subsidies and loans from the state now amount to 1 billion marks on an annual basis.

The state has thus far invested 3.2 billion. But the share of the state is only a small fraction of the funds pumped into the energy conservation projects. The support and the state loans have functioned as a sort of incentive to

accelerate investments which might otherwise not have been made or would have been delayed.

The share of the state was between 10 and 20 percent of the total size of the investment, and the total investment contributed by the state in one way or another thus involves tens of billions of marks.

Turunen and his study do believe that the money was well spent. As an example he cites investments aimed at increasing the use of domestic fuels.

#### Profitable Projects

"It has cost 1,600 marks to replace 1 ton of oil with domestic fuels. Since oil costs about 1,000 marks per ton, the period of repayment was short, less than 2 years," Turunen points out, who views the matter from a national economic perspective.

It was, among other things, the rapid oil price increase 2, 3 years ago which contributed to making the investments profitable.

Such rapid repayment periods will not be necessary in the future. This is for two reasons, among others:

First, the most important investments have already been completed, that is to say the worst instances of abuse have been corrected, and measures have already been instituted in the areas where it was particularly unprofitable to use oil.

Second, in the future the state will probably not support the most profitable projects, the ones which pay for themselves within a few years. This, at least, was the opinion voiced by director-general Erkki Vaara at the energy department of HIM [expansion unknown], when he learned of the report on Wednesday.

Vaara was of the opinion that the most profitable projects would probably be carried out even without state contribution, and that the emphasis will be shifted to projects which have a longer period of repayment, 4-6 years.

#### Division

One problem pointed out by the study is the division within that administration which functions as an intermediary for energy subsidies and loans.

Financing is negotiated by many different organizations and units--HIM, the Housing Board, the Development Area Fund, the Board of Agriculture, the Bank of Finland and others. There are 20 different forms of support for energy investments.

It is therefore proposed in the report that the forms of support should be better coordinated and that the guidelines should be drawn up by the energy department of the Ministry for Trade and Industry.

It is further suggested that direct support should play a less important role in the future and that the share of the loans should increase. Up to now the

support, that is to say the subsidies, amounted to one-third of the energy investment grants, while the loans represented two-thirds.

"There is interest in energy investments in Finland. The public is aware that it is worth investing in this area. The problem has usually been that there was a lack of capital," Taisto Turunen stresses.

Trade and Industry Minister Esko Ollila, who received the energy report on Wednesday, underlined that this conclusion must be taken into consideration when the new energy-political program is to be determined. The program will probably be announced toward the end of 1982.

"The loans will then play an even more prominent role than the energy subsidies," Ollila said.

#### Difficult to Measure

Just what has been accomplished, then, with the billions the state helped pump into the energy investments?

The report concludes that domestic energy has replaced or will replace 2 million tons of oil equivalents, that is to say an amount of oil or other fuel which is the equivalent of 2 million tons of oil a year.

The domestic energy share of our total energy consumption is 8 percentage units greater than it would have been, had the energy investments not been undertaken. Domestic energy would have contributed 22 percent instead of as now 30 percent.

At the same time Turunen admits that it is difficult to measure with precision the results of the investments, partly because an exact evaluation is difficult to carry out, and partly because certain authorities which granted energy supports did not follow up the use of the funds sufficiently well.

Turunen does not want to say which authorities these are which neglected the follow-up work; he only asks the government to evaluate the results more carefully.

Finally, the report determines that the present appropriation of 1 billion a year for energy financing is sufficient, and that this funding covers the most significant areas, but that certain bottlenecks which delay or impede the granting of energy subsidies and loans should be abolished.

In addition, more attention should be focused on energy conservation, while investments in district heat could gradually be cut back.

11949

CSO: 3109/223

## GOAL FOR ELECTRICITY BY 1990 TIED TO FORESEEN SOURCES, USE

Paris REVUE GENERALE NUCLEAIRE in French May-June 82 pp 236-239

[Article by Jean-Claude Lebreton, Assistant Executive Manager at the French Electric Company Headquarters, Director of Department for the Study and Promotion of Marketing Activities: "Prospects for Electrical Energy in Industry," text of a presentation at a 21 January 1982 meeting of the French Society for Nuclear Energy.]

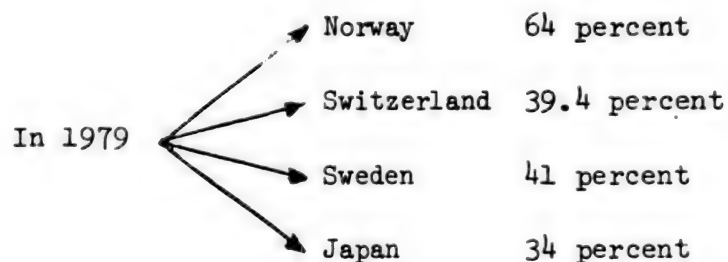
[Excerpts] The author believes that the portion of electricity in the total energy balance should increase considerably during the next few years. He analyzes the conditions for this increase and the positive consequences that it should bring about for the entire French economy.

The plan for French energy independence, as defined by the government on 8 October, reveals the considerable effort made during this decade to bring the sources of primary energy into a new balance and to develop the lode of energy conservation. Of course, there will certainly be more adjustments in nuclear, coal and energy conservation in the years to come, but the broad outlines remain and, among them, uranium, the newcomer in the second half of the century, will see its place increase to become comparable to that of oil, of energy conservation, or of the sum of gas plus coal.

Thus electricity should represent 40 percent of the total energy in 1990 (Fig. 1), which is nothing exceptional compared to many neighboring countries. Starting with a level of 30 percent today, that is, therefore, an increase of one point per year that must be realized over this decade.

Figure 1. Share of Electricity in French Energy. Comparison  
With the Situation in Several Foreign Countries

Percentage	1960	1970	1975	1979	1985	1990
Share $\frac{\text{electricity}}{\text{energy}}$	18.7	21	24.3	27.1	34.7	41.3



At the present time, it can already be said that in 1981 more than 37 percent of electricity was produced by nuclear energy; that is, 12 percent of the total energy, since electricity covers 30 percent of energy needs. In 1982 we should approach 50 percent of the total electricity produced in the hexagon [France] whereas we scarcely exceeded 7 percent in 1977. Nuclear production has, therefore, increased sevenfold in 5 years.

#### The Principal Energy Vector

The redistribution of this energy from uranium can only be done competitively through electricity. In fact, the benefits of the size of power plants must be exploited thoroughly in order to arrive at a cost per nuclear kWh equal to about a third of the cost for the same kWh from fuel oil or half of that from coal (Fig. 2). Of course, the heat factor will have its place in a radius of 10 to 30 km around the power plants, but for fairly specific and relatively indivisible uses.

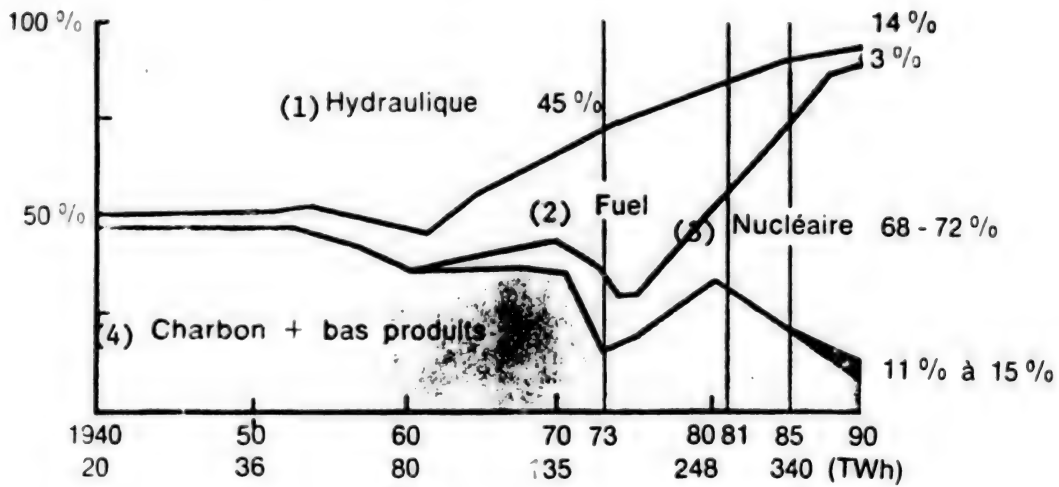
Figure 2. Comparison of Costs of Nuclear kWh  
and Classic Thermal kWh

Costs of Nuclear and Classic Thermal kWh (in 1981 centimes per kWh)		
Nuclear	{ Investment	8.92
	{ Operation	3.19
	{ Fuel	4.38
		<div>16.49</div>
Coal	{ Investment	6.87
	{ Operation	3.23
	{ Fuel	15.89
		<div>28.97</div>
Desulfurization increase		2.98
Fuel oil	{ Investment	5.92
	{ Operation	2.92
	{ Fuel	46.66
		<div>58.20</div>
Desulfurization increase		3.70

The electricity vector should be the principal energy vector of tomorrow since it can simultaneously process data, monitor and control the processes, carry the power required for mechanical or thermal applications and, finally, mobilize all of the primary energy sources: hydro, coal, oil, uranium, as shown by the history of electricity since 1940 (Fig. 3). Of course, we are talking about energy here and all of our eggs are not in the same nuclear basket in spite of the appearances in this chart. Lets take a look at installed power (Fig. 4): there, nuclear power does not exceed 50 percent of installed power. What? With 50 percent of the power, can they produce 70 to 80 percent of the energy? The annual monotone of the 1990's explains this paradox with the nuclear power plants operating at a base longer than the others. Thus, flexibility while limiting investments at the production level by a "mutual" and cooperative effort. In fact, 60,000 MW of installed power is sufficient to serve 200,000 MW of subscribed power. That is the reverse side of a defect,

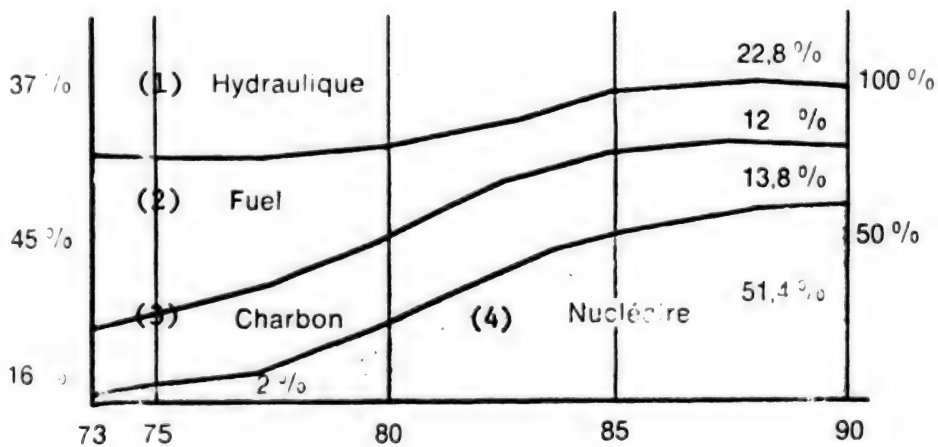


Figure 3. Electrical Energy: Share of the Various Sources



Key: 1. Hydro 3. Nuclear  
2. Fuel Oil 4. Coal and lower products

Figure 4. Components of Total Equipment in Installed Power



Key: 1. Hydro 3. Coal  
2. Fuel Oil 4. Nuclear

the inability of electricity to be stored by the user, which for reasons of security of supply, imposes a dense interconnection making the growth of needs possible while limiting the number of power plants required and the corresponding investments.

But all of this is not totally new. The electricity vector, beneficiary of new capital, uranium and coal, is, therefore, available. Its optimal use implies a redeployment of electricity at the point of final use as the government confirmed in the Hugon report and, more specifically, in industry, key sector of our economy. The penetration of electricity and coal already mentioned by the report of the eighth plan is confirmed.

The replacement of petroleum thus assumes a leap forward of 50 TWh in the decade over the 120 TWh consumed by industry today. How is that conceivable?

Of course, the specific uses of electricity are well known: lighting, motor power, electrolysis. Is that what is going to grow all of a sudden? Yes, to the extent of 17 TWh, but the greatest share is not there. The remaining 33 TWh will apply to nonspecific uses, or uses common to other fuels such as, for example, heating, thermal uses, distillation and transfers of mass. In short, electricity will have to compete with the other energy forms, particularly thanks to electrothermal energy conversion.

That is a real shift that will have to be accomplished in this decade and for all branches in order for electricity to have increased penetration.

Is that logical and timely? Should other fuels be displaced? Is it competitive and conservative of energy?

#### Competitive Electricity

Let us take for example the drying of plaster tiles. That is an energy drain, since tons of steam are required to reduce the water content of these tiles that are increasingly used in the building industry.

The Premaco firm, rather than doubling its current 200,000 m<sup>3</sup>/year kiln by a second fuel oil kiln, preferred to install a tunnel kiln recycling the calories with a heat pump. The results are clear after a year of operation: 500 tOE conserved over a year since each kilo of water evaporated only requires 0.24 kWh compared to 1.12 kWh in the classical solution.

In this case a high performance thermodynamic process was substituted for flame and steam. There would be many other examples of high performance processes by induction, by resistance, by membranes, by electrolysis, in which 1 kWh electricity is substituted for a number  $\gamma$  of fuel oil therms. Conventionally, if this  $\gamma$  exceeds 2.5--the number of therms required to make this kWh--there is conservation of primary energy.

Let us consider the  $\gamma$  in marketable and technically reliable electrical processes. In industry, it almost always exceeds 2.

That is where the price factor comes into play. Let us take a look at the cost of an electrical therm compared to a heavy fuel oil therm since 1970.

Since this ratio quickly dropped below 2 in the 1980's, electricity is competitive as soon as  $\gamma$  is close to 2 or above. Therefore, electricity has become competitive compared to fuel oil in all heat processes. That is a new fact. Moreover, depending on the seasonal nature of uses, this competitiveness can be even better. As an example, the spectacular improvement of payback time, a notion industrialists hold dear, can be measured for two typical applications: the induction kiln built by one of our industrial firms and mechanical steam recompression.

Can the future be anticipated? And what reliability should be accorded to this observation of today?

Tomorrow...

It could seem immodest to predict the prices of electricity in 1985, then in 1990. And yet that is what we are attempting to do.

A new pricing schedule which is very flexible and corresponds better to the real costs is being implemented and should promote recourse to the rational applications of electricity along two broad avenues:

--The avenue of high performance mono-energy electricity processes with  $\gamma$  exceeding 2 for all the new plants to be constructed;

--The avenue of multi-energy processes calling on electricity outside of peak days, or when it is produced from coal or uranium.

That will often be possible in existing plants in which the classical manufacturing processes before being amortized, have become too costly in fuel.

A limited electrical investment will then make it possible to relay them for most of the year.

This latter avenue will perhaps also be the avenue of the future in new plants where electricity will be combined with energy from new sources such as solar energy. This complementarity is not a fiction. The Pernod plant near Lyons will be the proof since its heat combines electricity and solar energy from heat stored in refractory bricks.

These two avenues are, of course, competitive but, in addition, they bring the qualities specific to electricity:

--Flexibility for the required work;

--Cleanliness;

--Quality of products (reduction of waste and losses due to fire).

Can we see still further and imagine a great future?...

This energy news often is stated in terms of new branches and can have considerable consequences on the heavy structures of French industry. I will give three examples:

--Thermal plasmas;

--Acetylene from calcium carbide;

--Electrochemistry and hydrogen.

The plasmas, whether arc plasmas or high-frequency plasmas, lead to fantastic applications of this electric flame at ultrahigh temperatures in chemistry, in extractive metallurgy, and even in steel manufacturing for the doping of blast furnaces.

The return to carbon chemistry for plastics via acetylene is also on the agenda. Then there would be true industrial complexes located near nuclear power plants or cement plants.

Finally, electrochemistry with its numerous branches such as organic electrosynthesis should lead to unimagined developments and, specifically, to hydrogen, a new energy vector or raw material of tomorrow for the synthesis of ammonia or the gasification of coal and the synthesis of methanol.

An Opportunity...and a Difficult Challenge

Finally, the development of rational uses of electricity constitutes a double opportunity for the French economy:

--An opportunity for firms using electrical energy in that it frees them from the international fluctuations of fuel costs and of dollar exchange rates and promotes the modernization and automation of processes which are the source of better working conditions and reduction of [environmental] harmfulness;

--An opportunity for French manufacturers of electrical equipment, by its direct effects on employment--certain organizations estimate the number of jobs generated by the investment resulting from an orientation to electricity at 80,000-- by pace-setting and leading the way in technology and by its multiplying effects in France or abroad.

This double opportunity is, nonetheless, a difficult challenge since many obstacles persist.

In the very first place, the financial obstacle is the most severe since it is a matter of investing on the order of 50 billion over 10 years.

The obstacle of technical guarantees is the reliability of equipment which can only be removed by a broad policy of demonstration projects and a dense frame of reference. We are determined to promote them, to create them and to finance them.

The obstacle of price guarantee and the differences between the prices of energy is also a determining element for industry risk-taking as well as that of the reliability of our supply.

We have the duty to do better by investing in our networks and by committing ourselves by making our [price] schedules public.

To conclude, it seems that acceleration in the development of the industrial applications of electricity should not be limited by difficulties of a technological order.

The critical route is now through information and training of partners, engineers and manufacturers, to insure the transfer of industrial mastery, whether it be for small operations--that is diffuse penetration--or for very heavy operations.

It is through incentives and aid in financing electricity investments that can be as high as 50 billion in this decade and which must be made in favor of French equipment manufacturers.

Finally, it is through a certain "guaranty" on the fluctuations of the price of electrical energy and better information on the future price of the uncertainties of the price of the other energy forms.

There is no magic formula for carrying out this difficult challenge which is of national interest. Or rather, there is one: confidence in EDF [French Electricity Company] and in the immense world of industry, complex and diversified from the small business to the large. Confidence in the choices that have been made. Confidence in the prices that are announced, confidence in the techniques that are ready to take over. Our challenge is to merit this confidence and to be convincing.

But it is at this price that the effort accomplished to have electrical energy of mainly national origin, based on hydro, on coal, and on uranium, at our disposal in 1990, will find its full justification and will make possible--why not?-- the advent of technologies of hope, and also of energies of the future in the framework not of competition but of a complementarity and a cooperation which must be exemplary.

9969

CSO: 3100/872



## PAPER COMMENTS ON MINISTER'S REPORT ON ALTERNATE SOURCES

Stockholm DAGENS NYHETER in Swedish 14 Aug 82 p 2

[Editorial by Olle Alsen: "The Big Energy Game"]

[Text] Labor Market and Energy Minister Ingemar Eliasson believes he can promise to kill two birds with one stone. We can get more than 50,000 new jobs before 1990 by concentrating on energy conservation and on new sources of energy: forest fuels, peat, coal, heat pumps, perhaps natural gas, wind power and solar heat. The new jobs will primarily be in regions with low employment where they are most needed. The energy sector could become the most expansive portion of the Swedish economy during the 1980's.

Furthermore, the dependence on oil will be greatly reduced and be cut in half, to 30-35 percent, before the turn of the century.

Such beautiful visions are what comes out of the Swedish research mill time and again. But the pattern has definitely changed character. Practically no one pretends any longer that it is nuclear power which can or should pull us out of the oil. Rather, it leads us into the fire.

Ingemar Eliasson's praise of the domestic alternatives and energy conservation as an investment incentive and an oil saver happened to come on the same day as it became clear to the public that the efforts on behalf of reactors 11 and 12 were a grave mistake: Electric power from Oskarshamn 3, for example, which will scarcely even find a reasonable market, will cost at least 35 ore per kilowatt hour to produce. The O3 reactor will cause the Oskarshamn company to lose billions.

"We will get that back since the O1 and O2 reactors are running so cheaply and smoothly," the company says. But if one of those were to be disabled for any length of time, such as is the case with the Waterfall Agency's Ringhals 3 and Ringhals 4? Another 7 or 8 billion will be borrowed for construction which ought to be stopped. The OKG [Oskarshamn Power Group] could go bankrupt, if worst comes to worst, and it does not, in contrast to the state-owned Waterfall Agency, have the extremely cheap hydroelectric power to offset the losses and keep taxes down; neither does it have the state as guarantor.

Energy Minister Ingemar Eliasson is relatively new to the government and to the energy debate, which explains a great deal. He believes that Barseback can become the world's safest nuclear power plant if only it receives a filter chamber. The Danes do not seem to believe so. Yesterday he said that it is not

the government but the power companies which have made the decisions to build reactors 11 and 12, another instance of passing the buck. That Waterfall can be so irresponsible!

Eliasson further said that it is primarily the higher interest rates which have made the new reactors so much more expensive. Oh, no. Changes in interest rates cannot explain that the kilowatt hour which last year was calculated to cost 11 ore in 1990 today is calculated at 35 ore. Here there was fraud from the beginning, culminating in the so-called study of the consequences, and many tried to expose it even at that time, but the nuclear power parties, the Social Democrats, Liberals and Conservatives, did not want to listen.

Eliasson said that we now make good use of reactors 7-10, which Alternative 3 wanted to halt. Well... Two of them, Ringhals 3 and 4, have practically been at a standstill for 1 year, which is estimated to cost hundreds of millions due to faulty steam generators. A U.S. reactor, Turkey Point, is just about to change steam generators, at a cost of 460 million dollars, 2.8 billion kronor. The other two, Forsmark 1 and 2, also had to be closed for rebuilding. Rust damage and cracks in no time at all.

Just as the editorial page of SVENSKA DAGBLADET, the energy minister seems to be a victim of the myth that nuclear power saves a lot of oil, and that when it is probably phased out it will be replaced by the same amount of another, perhaps even more expensive, electric power production.

But since more than half of the Swedish nuclear power production, even if numbers 11 and 12 will come on line, must gradually be used for electrical heat in order to have a market at all, it is and will be cheaper to go directly for renewable heat instead of taking the detour via electric power. And in that case even 1 million tons of oil, or the equivalent amount of energy from domestic fuels or similar, produce as much heat as two large nuclear power plants. Since the oil imports are a good bit more than 20 million tons, the marginal importance of nuclear power is easily understood, if one wants to see it.

Electric power is much too high in quality and expensive--and vulnerable--in order to be given such a major role as direct heat in a nation. The French are in the process of making a historic mistake with their investment in nuclear power. Sweden should not follow suit any more than it already has.

When the daytime price of electricity in the winter increases to perhaps 50 ore per kilowatt hour for the consumer, not despite the cheap nuclear power but because of the expensive nuclear power, far in excess of half a million small house and home owners, who have nothing but direct electricity, will freeze or be all but ruined.

What will they do without alternative heating, without fireplaces?

"They will have to get wood stoves, I guess," says one rate specialist at the Waterfall Agency to DAGENS NYHETER. Well, you are welcome to it, all you homeowners who were scared into voting for the 12-reactor program.

To invest in electricity for heat pumps, on the other hand, makes good business sense, because this returns the energy three times over in the form of heat. Ingemar Eliasson made the welcome announcement that the government has decided to retain its authority and development capacity regarding wind power until the wind power plants on Gotland and in Scania have been evaluated. But they probably have to place some more orders pretty soon. The wind blows for free, mostly in the winter. Hydroelectric power is excellent for storage and equalization. Wind power is clean, wind power plants can be moved if they become inconvenient. They do not cost billions for dismantling and waste storage. New wind power will at least become cheaper than new nuclear power. Halt the O3 reactor before any more good billions have been thrown after the bad ones, and set a new course toward wind power and other energy from fluid flow.

11949

GSO: 3109/223

## DAM CONSTRUCTION, CAPACITY SURVEYED

Istanbul DUNYA in Turkish 2 Aug 82 p 4

[Text] The energy crisis of the past 10 years retains its timeliness for both developed and developing nations. Turkey's developing status and its need for energy in ever-growing amounts make the problem even more important. The inability to meet demand by production from local resources and, therefore, having to cover some of the energy requirement by imports, plus the rapid rise in energy prices and the need for large amounts of foreign exchange to make these purchases abroad have put the topic of energy on the front burner in Turkey in recent years.

The energy importance in the development of hydraulic resources of structures which serve to harness running water, of dams in other words, is a recognized fact. This topic is extremely important, especially for Turkey with the infinite, unharnessed natural resources of its rainfall and network of streams, from the standpoint of developing sound irrigation systems and largely converting the existing hydraulic potential into electric energy to relieve the energy deficit of a growing industry. Dams, which usually serve the purposes of irrigation, flood control and energy production, are essential elements of the infrastructure of our developing economy.

As to hydraulic potential, Turkey can be described as one of the richest countries in Europe in natural resources. If Turkey had about 500 dams, including those existing, under construction, planned or which could be planned, it could store 200 billion cubic meters of water (7 times the volume of Keban Lake), and about 105 billion kilowatt hours of energy could be produced with this amount of water (equal to 17 Kebans). To date, about 200 dams have been built, are under construction or on the drawing boards. These will be able to produce only 50 billion kilowatt hours of energy and irrigate slightly more than 2 million hectares of land.

Despite Anatolia's history with its streams and fertile soil of supporting various agrarian civilizations, the civilizations never built any significant structures to tame the streams. Yet technological wonders such as the Marib Dam which made the kingdom of the famed Queen of Sheba into a paradise 300,000 years ago in what is now the Yemen Arab Republic are not so far away.

During the time of the Ottoman Empire, significant contributions were made in urbanization and infrastructure with roads, bridges, mosques, inns and public baths, but dams were never taken up through all the centuries.

Some small weirs that were not real dams began to be seen around Istanbul after the 17th century intended to relieve the need for water during the time of the Ottoman Empire. The oldest is the Topuz Weir built in 1620. The Buyuk and Topuzlu Dams and the Ayvat and Valide Dams were built in the 18th century, also near Istanbul, and the Yeni Dam and Elmali-One were built in the 19th century.

The dam building of the Republican period began with the Cubuk Dam which was started in 1929 after the founding of the Republic of Turkey and completed in 1936. With the Porsuk-One Dam built in Eskisehir between 1943 and 1948 after completion of the Gebere Dam in Nigde in 1938 and Golbasi Dam in Bursa in 1940, the Republic had four new dams in its first 25 years. Activities accelerated in the 12 years from 1948 to 1960. Elmali-Two, Damsa, Ayranci, Sille, May, Sariyar, Seyhan, Kemer, Hirfanli and Demirkopru were built during this time, the latter five of which harnessed hydraulic resources for energy production for the first time, providing a total established power resource of 433 megawatts. In the construction of the dams built during this period, 17 million cubic meters of fill was used and 1.3 million cubic meters of concrete was poured. Compared to today's standards these figures, considered tremendous advances at the time, equal the amount of earth moved at Hasan Ugurlu Dam which was completed a few years ago at Samsun and the amounts of concrete used or being used at Hasan Ugurlu, Aslantas and Suat Ugurlu dams. By the end of this period, there was extensive input of foreign technology as well as engineering and contracting services in dam planning, project preparation and construction.

Of the more than 100 dams built and being built since the 1960's, however, only the large dams such as Gokcekaya, Keban, Karakaya and Oymapinar remain under the foreign engineering and contracting monopoly. Other large dams such as Hasan Ugurlu, Aslantas, Suat Ugurlu and Altinkaya have used foreign engineering services only in the planning and project stages, with construction being carried out entirely by Turkish contractors. Engineering and construction at almost all the other dams are the product of Turkish technology created by Turkish contractors, engineers, technicians and workers.

#### General Information on Lower Yesilirmak [Green River] Project

The main body of the Yesilirmak, which rises in the 2,800-meter heights of the Kosedag Mountains in the northeastern interior Anatolian plateau and takes its name from the lush greenness it provides along its path, is fed by huge tributaries on its way to the Almus Dam site. Leaving the Almus Dam (1966) and passing through Tokat Province, the Yesilirmak irrigates the Kazova and Turhal Plains and joins the Cekerek Branch, which rises in the Camlibel plateau, in northern Amasya Province. The Yesilirmak joins its longest branch, the Kelkit, in Kale at the extremity of the Erbaa Plain. Kale is the starting point of the narrow rugged valley that takes the Yesilirmak to the Black Sea. After a 40-kilometer stretch through this valley, the Yesilirmak arrives at the Hasan Ugurlu (Ayvacik) Dam.



Construction of the Ayvacik dam was first proposed as a result of the Yesilirmak management studies conducted between 1954 and 1957. The 1963 Lower Yesilirmak Project planning report by the DSI [State Hydraulic Affairs Directorate General] Carsamba region, established in 1961, however, proposed a second dam, the Balahor Dam and hydroelectric plant, to be built on the Yesilirmak where it opens into the Carsamba Plain to regulate the waters entering the turbines of the Ayvacik hydroelectric plant. The plans were revised and the final projects drawn up and submitted to the DSI by the Japanese firm EPDC in 1968-1971. The Ayvacik and Balahor Dams and Hydroelectric Plants were renamed in honor of Hasan Ugurlu, the Samsun DSI Region Seven director who had worked on the project for a long time in its formative stages but died in a traffic accident before implementation began, and his wife, Suat Ugurlu.

The most important part of the Lower Yesilirmak Project is the Hasan Ugurlu Dam and Hydroelectric Plant, the other parts consisting of the Suat Ugurlu Dam and Hydroelectric Plant, irrigation of the Carsamba Plain and the Kilickaya Dam.

#### Suat Ugurlu (Balahor) Dam and Hydroelectric Plant Construction

The Suat Ugurlu Dam is also an important part of the Lower Yesilirmak Project. The project goal is to provide the water needed to irrigate the Carsamba Plain, provide energy and control the lower part of the river. We built the Suat Ugurlu Dam and hydroelectric plant, to regulate the waters for the turbines of the Hasan Ugurlu Dam and hydroelectric plant, at the spot where the Yesilirmak opens into the Carsamba Plain on a straits where the riverbed broadens and the incline tends to smooth out. The volume of the reservoir is 175 million cubic meters. It will produce a total of 273 million kilowatt-hours of electricity a year. There are two 23-megawatt units for a total of 46 megawatts.

#### Aslantas Dam and Hydroelectric Plant

The Aslantas Dam takes its name from the last Karatepe-Aslantas Castle. The dam is in a favorite tourist area with its open-air museum, the only one of its kind in the world, containing a wealth of ancient finds and ruins, the Haruniye Hotsprings with their great thermal potential, Kumkale and the Crusader castles and a national park of almost 8,000 hectares. Adding the Aslantas Dam Lake to these historical and natural riches will make the area even more attractive.

The Aslantas Dam and hydroelectric plant is the most important structure of the lower Ceyhan River project. Upon completion, it will irrigate 97,000 hectares of the Ceyhan Plain and protect 35,000 hectares from floods as well as produce  $500 \times 10^6$  kilowatt hours of electricity. The drainage field covers 14,700 square kilometers.

The primary rock at the dam site consists of mudstone and sandstone. Owing to this structure, construction of the diversion tunnels is an important part of the project. The underground work is being done by modern methods not requiring explosives, a careful process using the most advanced equipment of



requiring explosives, a careful process using the most advanced equipment of our time. Another feature of the project is the construction of a diaphragm (slurry trench), .7-.8 meter in width, extending to the primary rock for the purpose of retaining the impermeability of the alluvial stratum underlying the main cofferdam. This method has only been in use for a few years and this is its first application in Turkey. The Aslantas Dam saved Ceyhan from the disaster of floods in the heavy rains of 23-31 March 1980. Water pouring at the rate of 4,700 cubic meters into the lake formed by the cofferdam was channelled through the diversion tunnel at 1,800 cubic meters/second and the rest was stored.

#### Hasan Ugurlu Dam and Hydroelectric Plant

The Hasan Ugurlu hydroelectric plant has 4 turbine units. Each unit has a capacity of 125 megawatts. Plans called for two units to go into operation first ( $2 \times 125 = 250$  megawatts). When the other two units are assembled and operating, the dam will have a total power output of  $4 \times 125 = 500$  megawatts. The electricity produced by two units is almost 1 billion kilowatt hours. As Turkey's current energy deficit is 2.5 billion kilowatt hours, Hasan Ugurlu lowers that annual deficit to 1.5 billion kilowatt hours by being tied into the interconnected system. If we had to use fuel oil to produce this electricity instead of using the low speed energy of water accumulating in the dam reservoir, we would have had to buy at least \$50 million worth of fuel oil annually (at December 1979 market prices). In that case, Hasan Ugurlu Dam and its underground hydroelectric plant introduce an added value of \$50 million to our economy annually. The value of 1 kilowatt hour to a steel plant is production worth at least 20 Turkish liras.

Electricity produced at Hasan Ugurlu is tied into the Black Sea coastal system at the Samsun-Carsamba Substation II switches, transmitted over 380-kilowatt lines to Turkey's high-load areas and over 154-kilowatt lines to supply the energy needs of the Kayabasi region.

8349

CSO: 4654/418

## AFSIN STATION, ATATURK DAM PROFILED

Istanbul DUNYA in Turkish 2 Aug 82 pp 1, 4

[Text] Afsin-Elbistan Thermal Power Plant

The Afsin Elbistan Thermal Power Plant, being built to produce energy from low-quality lignite, is described as the largest power plant in the world. The importance of the Afsin-Elbistan Thermal Power Plant is better understood if one considers the fact that the only one of its kind in the world today is one in Greece and that it is so small as not to warrant comparison with the one in Turkey.

The largest investment of the Turkish Electric Power Enterprise [TEK] and Turkey as well, the Afsin Elbistan plant has the capacity to consume 90 tons of water and 35 tons of lignite per minute when it becomes operational. The lignite [mining] project, undertaken to keep the thermal power plant running, will produce 20 million tons of coal a year.

The Afsin-Elbistan Thermal Power Plant consists of four giant, individual units, A, B, C and D. Each of the units is divided into four parts. Construction of Afsin-Elbistan A was begun in 1972 and is expected to be completed in 1983. With each of its divisions producing 349 megawatts, unit A's total power climbs to 1,360 megawatts. At a projected total cost of 91,928,700,000 Turkish liras, the total expenditure on unit A by the end of 1980 was over 36 billion.

Construction of Afsin-Elbistan B began in 1977. Unit B, to be completed in 1985, also consists of four separate sections and has 4x300 megawatts of power. The unit B project total is 115 billion Turkish liras and 90 million liras had been spent by the end of 1980.

It is estimated that the "Afsin-Elbistan A" group, consisting of the first four units, will supply one-fourth of Turkey's energy consumption. The total power production of units A, B, C and D of the Afsin-Elbistan project, with the total power of unit A alone being 1,360 megawatts, will be in excess of 5,500 megawatts.

The power plant will be absolutely free of external dependence for raw materials as it sits on an area extremely rich in coal and will be entirely the work of Turkish technology, Turkish workers and Turkish engineers.

Keban Dam, admittedly Turkey's largest dam at present, produces 600 megawatts of power. When the Afsin-Elbistan project is finished, it will have a capacity to produce 9 times Keban's output. It is estimated also that such a large investment would bring considerable relief to the area as regards employment. In addition to the more than 1,000 personnel employed by the TEK, the Turkish Coal Works will employ over 5,000 workers in mining and refilling the spent galleries with waste material.

#### Ataturk Dam

Aside from its sheer size structurally, the Ataturk Dam and Hydroelectric Power Plant is described as being no different from the fill-type dams which have been built in Turkey for the past 15 years. With its 84 million cubic meters of fill volume, 100 million cubic meters of required excavation and 3 million cubic meters of concrete structures, the Ataturk Dam and hydroelectric power station will consume by the time it is finished 1 million tons of cement, 50,000 tons of iron and 25,000 tons of explosives, employing 7,000 people night and day for 9 years using hundreds of pieces of equipment that will consume 300,000 tons of liquid fuel. The result will be the production of 8 billion kilowatt-hours of electric energy, the irrigation of 700,000 hectares of land and the harnessing of the Euphrates in the full and complete sense.

Four dams--Keban, Hasan Ugurlu, Aslantas and Altinkaya--built or under construction in Turkey resemble the Ataturk Dam structurally and architecturally. Of these, Keban and Hasan Ugurlu have been completed and are now producing tremendous amounts of energy, contributing hugely to Turkey's economic strength. Aslantas and Altinkaya are still under construction, Aslantas at the point where it will go into operation next year. The Ataturk Dam, for instance, is two and four times bigger respectively as to the major job components of excavation, fill and concrete volume or amount than Hasan Ugurlu and Aslantas Dams, two of the four dams built or being built by our firm Dogus Construction and Trade, Ltd.

If foreign contractors build the Ataturk Dam, it will cost around \$500 million just for the equipment these contractors will need, including the spare parts and tires that will be needed in the course of the 9 years of construction. Adding to this figure the tremendous outlay of foreign exchange that would be unavoidable within the framework of unit prices through the import of foreign labor services and wages, general expenses and profit margins, one can figure immediately in light of the contacts made to date with foreign firms and of past experience that construction of the Ataturk Dam would cost no less than \$1.2 billion in foreign exchange required by foreign contractors. If we may state the facts clearly and frankly, it would not be necessary to spend more than \$450 million in foreign exchange all told for construction if local contractors did the job, including an additional \$200 million for machinery and the spare parts and some of the tires that would be needed over 9 years. Something else worth considering for the Ataturk Dam and hydroelectric station is that the foreign exchange it may require might be covered by acceptance credits which Turkish banks would be able to offer without drawing on the Turkish Central Bank.

The question as to whether Turkish contractors could handle the actual construction is surely beyond argument.

Foreign contractors' prices on construction jobs in Turkey are no different from prices outside Turkey. Isn't the primary reason for the broad scale on which Turkish contractors have taken jobs abroad in recent years to make them competitive? Moreover, the fact that they have worked so hard to get foreign contracts, venturing this kind of difficult adjustment to local conditions to offer the lowest bids and carry the jobs through at that price, is an indication of how Turkish contractors work at far lower costs and keep their risks down as compared to foreign contractors. In fact, foreign contractors working in Turkey always get contracts at prices 4 to 10 times higher than prices paid to local contractors. The best indication of this is the price difference of more than 20 billion Turkish liras just paid this year to the foreign firm that got the contract for construction of the Karakaya Dam, which could have been done by local contractors.

Something else to consider is that foreign contractors doing jobs for the state occasionally put the state institutions in a very difficult position for various reasons, getting into big arguments over things on which mutual agreement should be quite easy. The Keban Dam and hydroelectric plant and the Karakaya Dam and hydroelectric plant are each an example of this. The dispute over hundreds of millions of liras at Keban has been going on for 10 years. Long, unnecessary delays occurred at the Karakaya Dam. Even the smallest disagreements mean loss of time and money and having to face price adjustments.

Furthermore, it is extremely risky as to national interests to have foreign contractors build stream-control structures such as dams on streams that cross national borders.

Dogus Construction and Trade, Ltd., won the contract for the Ataturk Dam and hydroelectric plant diversion tunnels, the intake and discharge galleries of these tunnels, excavation and concrete structures. This constitutes the initial and most difficult stage of construction on this gigantic project, its 84.5 million cubic meter fill volume being the third largest in the world next to the Tarbela Dam in Pakistan with a fill volume of 150 million cubic meters [as published: cubic yards] and the 120 million cubic-meter [as published: cubic yard] Fort Peck Dam in the United States.

The three diversion tunnels are 10 meters in diameter and have a total length of 4,089 meters. Completion of the structure, including the rather complicated system of intakes, locks and shafts, is scheduled for 1984. Our firm will allow the state to take possession of the tunnels perhaps even earlier than this and at a lower cost than the competent authorities considered necessary thanks to the technological methods it has developed, the extensive expertise of its personnel and its large equipment plant. The surface and underground concrete volume at this stage is 400,000 cubic meters and excavation is 5 million cubic meters. After a Turkish contractor has done the most complicated and difficult part of the job, there is no technical reason why it should not be able to do the other major parts where the construction is simpler but the volume larger.

This large investment will bring the relief that this kind of public investment affords insofar as it extends to the businessman in the street, creating a longed-for market recovery with a serious hiring level and demand for materials.

The economic value that the completed structure will create is so great that the inflationary aspect of it can definitely gain no validity and is sufficient that the project construction should not be drawn out but should be able to be completed on time. Considering the contribution to production of the 8 billion kilowatt hours of energy--the equivalent of 2 million tons of fuel oil--that will be obtained and the added value increase, it will create as well as the domestic market consumption and especially export of the seven-fold increase in produce to be obtained from the 700,000 hectares of land that will be irrigated (1.4 million tons of cotton, 500,000 tons of rice, 2.5 million tons of cereal grains, 3 million tons of truck-farm produce and vegetables, 4 million tons of root crops, 2.5 million tons of fodder crops and other crops), the economic need for this investment is apparent without the need to say more.

Construction of the Ataturk Dam and hydroelectric plant is a job requiring no extensive technical specialty. Every component to be built at this dam is something which has been done before and is now being done in Turkey by Turkish contractors. The dams built in Turkey in the past 15 years have provided Turkish technology, engineering and contracting more than enough of the technical potential and experience to enable them to build the Ataturk Dam and hydroelectric plant. Turkish contractors would never allow the excessive measures and unnecessary large expenditures which would be, would have to be or would be attempted to be insisted upon by foreign contractors and advisors, which are exclusive to advanced and very wealthy economies and which contribute nothing to the structure or structural safety, and, considering Turkey's economic conditions, they would give priority to local labor and materials and, with their advanced technology and experience, would certainly get the job done in the shortest time possible and at the lowest cost. Moreover, the contradictory situation would be avoided of having such a prestigious construction job at home done by foreign contractors while many of our contractors are seeking work and taking jobs abroad.

A considerable savings would be effected by having Turkish contractors put their existing machinery and equipment plants to work. The total cost of the dam construction will be 50 percent lower if Turkish contractors do it.

Brand new horizons will open for Turkey in the field of international construction if the Ataturk Dam and hydroelectric plant is built entirely under Turkish supervision by Turkish engineers, technicians and laborers, and Turkey will put its stamp on the world construction market.

8349

CSO: 4654/417



## DANKERT ASKS MORE POWERS FOR EUROPEAN PARLIAMENT

Frankfurt/Main FRANKFURTER RUNDSCHAU in German 24 Aug 82 p 2

[Article by Erich Hauser: "Dankert Presents Twelve Demands"]

[Text] Before the next European Parliamentary (EP) representative direct elections in 1984 the Strasbourg representatives want to win stronger influence in the European community decisionmaking process. Parliament president, Pieter Dankert in the latest issue of Social Democrat News Service formulated 12 demands of the Parliament based on, among other reasons, that the bureaucracies of the EC leadership have been exercising more and more uncontrolled power that was not planned for in the community covenants.

Dankert writes that a look behind the scenes of the Council of Ministers shows how shockingly strong in reality the influence the bureaucratic apparatus of certain countries' ministers on the decisions is. Fortunately there are often considerable differences of opinion among individual ministries and between ministries of individual member countries so that the Parliament finds itself allies. A stronger position of the EP will not necessarily weaken the role of the national parliaments, but will supplement parliamentary control. So that a better balance can be created between the EC Council of Ministers and the EP according to Dankert, the parliament's demands for additional rights are:

1. The EP should be able to work more closely in the political cooperation of the EC governments [EPZ] which would include participation in international conference delegations.
2. The Council of Ministers should not approve any guidelines or regulation proposals of the EC Commission that have been rejected by the Parliament.
3. The Council of Ministers should regularly report on the disposition of the legislative consultations: (Since deliberations about certain guidelines can sometimes be drawn but for over 10 years this might indirectly lead to an acceleration.)
4. EC agreements with foreign states should be concluded only with the concurrence of the EP. (Up to now it has had almost no influence on such agreements. On the other hand, for example the EC-USA steel agreement would not have come about without a hasty special session of the EP or maybe not at all, if this regulation had already been valid.)



5. Before the naming of a new EC Commission by the Council of Ministers, the EP should be consulted.

6. The government head of the EC countries, who presides over the agencies of the Council of Ministers, should regularly answer questions personally in the EP. (For leaders of large EC countries, this is at best possible only once during his "presidential half-year," owing to reasons of schedule.)

7. If in its guidelines and ordinances the Council of Ministers should depart from the expressed policies and decrees of the parliament then the mediation process should come about. (Presently this happens only if "significant financial consequences" [are at stake.] In practice this would protect the decision-making process even more.)

8. Suggestions of the EP for EC regulations should be presented to the Council of Ministers by the Commission automatically as its own suggestions. (The Council of Ministers cannot make any decisions without formal suggestions by the EC Commission.)

9. If the Commission does not want to do this in individual cases, then it should offer a justification to the EP. (As a result of the demand the contractual "independence" of the Commission would not be violated.)

10. The Commission should consult not only the Council of Ministers but also the EP before drafting proposals.

11. The Commission should consult the EP before it retracts proposals in the Council of Ministers. (Proposals are withdrawn when agreement in the Council seems impossible. For example, Council negotiations on farm prices or fishing quotas would be prolonged if the Commission cannot offer new proposals for the old proposals without first consulting the EP.)

12. For the adoption of each guideline or regulation a timetable should be agreed upon between the Commission, the EP and the Council of Ministers.

Realization of these reforms would significantly improve the "ability of the EC to solve problems." Dankert thinks. And they would fulfill the promise of the governments and the expectations of the people which were connected with the first direct elections in 1979.

CSO: 3103/662

## REUNITED CP MAY PROVE LESS MODERATE

Helsinki HUFVUDSTADSBLADET in Swedish 24 Aug 82 p 2

[Editorial by Jan-Magnus Jansson: "Patched-Up Communist Party"]

[Text] The patching together of the Communist Party before the Riksdag election is above all a success for the party chairman Jouko Kajanoja, but it is hardly going to promote moderation in the party's practical policies, writes Jan-Magnus Jansson in a commentary on Sunday's decision.

The end of the week meant that Finland's Communist Party is patched up, at least for now. After all that happened it is naturally not possible to be sure that the split is really mended. But the extra party congress of last spring could at least--from the communist viewpoint--have served to make the parties really alarmed. They saw before them an abyss which could easily swallow the entire outer left and its remaining popular support, if one did not exert at least some discipline.

It is difficult to say exactly how much the different parties have won or lost by the agreement. At first glance one gets the impression of a gain for the minority. The majority wing, and most of all its most fighting part, the Kemppainen group, had its notable losses in the sense that all the demands that were made, for example dissolution of parallel organizations and that TIEDONANTAJA in its present form be eliminated, now have been moved into the future. The minority keeps its identity and its character of a party within a party, which is emphasized by the patching up having had the character of an agreement between two equal parties.

In personal policy the minority had to be satisfied with a relatively unpretentious catch. In the presidium they are now going to be replaced by an unknown representative from red Hogfors. TIEDONANTAJA's controversial chief editor Urho Jokinen gets an almost formal post, and is outside the polit-bureau. A number of the radicals who last spring fell out in the central committee election remain outside. And general secretary Arvo Aalto's head is sitting safely on his shoulders.

One gets the general impression that the power of the minority is declining in the general climate of the Koivisto republic. The self-confidence and stubbornness which marked the entry of the minority wing into the 70's and the beginning of the 80's certainly had many causes. One of them was doubtless the approaching presidential election, where they definitely had a different opinion than the majority. Here they have reefed their sails and recognized the result of the election. The old cooperation between the minority wing of the Communist Party and a part of the Center Party hardly functions in today's situation.

Also one may note that the support from the Communist Party of the Soviet Union--despite the known letter to the extra party congress--has not been so decisive as the minority must have hoped. Official commentaries in the Soviet Union on the results of the party congress and Saarinen's angry speech have been conspicuous by their absence. It can be taken for granted that within the Soviet party they are happy with the healing of the party split. To the extent that progress within the Finnish party has been affected, it has happened discreetly and without the uproar of the extra party congress.

It is believed, furthermore, that support of the taistoists by the intellectuals is now on the wane. Everything can change, but just now it looks as though the political advantages will favor the majority.

If there is anyone who is especially satisfied with Sunday's decision, it is the new party chairman Jouko Kajanoja. Many outsiders thought that Kajanoja reiterated the assurance that the minority communists are coming back with a lunatic's obstinacy. Now they are back until further notice, and it is Kajanoja's turn to smile in his beard.

It has been said that it is primarily the Riksdag election which has forced the "reconciliation," and so it naturally seems. Already the questions of common candidate nomination and common election association demand cooperation between the wings. Separate appearances at the Riksdag election should, according to the rules of the Finnish democracy, have led inevitably to a definite party split.

One thing is that the Communist Party, through its inner fights, has created an unfavorable image that will take a long time to correct before the party regains some of its political credibility. As long as the patching up puts such a clear strain on the provisional arrangement, one can not blame the voters if they are suspicious of it.

The patching of the party can hardly avoid coloring its policies to a certain extent. In the budget process, and when the Riksdag meets, there must be concessions on issues. It is not likely that party cooperation promotes moderation, except when unity demands that the course be adjusted in the direction desired by the minority.

Even if one is skeptical of Ilkka Suominen's claim that the Communists are ready to leave the government, it can be expected that government cooperation will be increasingly tested.

9287

CSO: 3109/229

## BRIEFS

SORSA APPROVES CONSERVATIVES IN GOVERNMENT--Prime Minister Kalevi Sorsa (Social Democrat) predicted that there will be large changes in government policies after the Riksdag election. In an interview in the Tammerfors newspaper AAMULEHTI on Sunday the prime minister said, among other things, that there is now not a single party in the Riksdag which, for foreign policy reasons, could not be considered as capable of being in the government. In the interview Sorsa also took up the question of next year's budget and said that it will be tight, and a shock for many. The sitting government designated Sorsa as a transitional government following the presidential election. The purpose of the present government is, however, to establish an economic basis for the next, more lasting government. Prime Minister Sorsa repeated in that connection what he had also said previously, that the present government will continue until the election. [Text] [Helsinki HUFVUDSTADSBLADET in Swedish 23 Aug 82 p 1] 9287

CSO: 3109/229

## EDITORIAL ON PANAGOULIS RESIGNATION

Athens I KATHIMERINI in Greek 29-30 Aug 82 p 8

/Editorial: "Symptoms of Disintegration"/

/Text/ Is Mr Stathis Panagoulis' resignation from the Ministry of Interior and his withdrawal from PASOK an isolated incident of a man without any distinguished personal qualities --as Mr A. Papandreou wants to represent him-- with suspect designs against the government? Or is it perhaps one more symptom, in a series that have previously occurred or that will take place in the future, which herald the internal disintegration of PASOK?

If it is the first case, i.e. if Mr Panagoulis had been accepted as a cadre of the "movement," if he had been included in the list of preferred deputies to be selected, and if he had been promoted to the position of deputy minister thanks to the "second hand distinctions" he had, the prime minister would never have been so angry over the desertion of this "insignificant" person. But the anger, all that was levelled against the former deputy minister, the outspoken intention of the "all-powerful" leader to crush Mr Panagoulis both politically and socially, reveal to public opinion the true meaning of the event.

And it is this meaning, Mr Papandreou's fear that the amalgam of heteroclite political views that brought PASOK to power would prove impossible to maintain its unity when every opinion has seen its expectations contradicted. Indeed, all those who believed in the intransigent anti-West, anticapitalist, socialistic slogans of PASOK would logically be the first and the most outraged critics of the current government's abandonment of its pre-electoral pronouncements.

It is this criticism that Mr Panagoulis appears to want to express more. And since his charges are having repercussions in the minds of all other "leftists" who had been deceived, and since his declarations are grist for the KKE mill, thus making more difficult Mr Papandreou's effort for reconciling his government's policy with objective truth, Mr Panagoulis' stone throwing aims at frightening all those who had the inclination to voice their protests with the same "disobedient" manner.



Will this method produce results? Anything but that. Not only because the prime minister himself criticized its effectiveness since he refuses to recognize and explain the reasons that forced him to abandon his original positions, insisting that he is maintaining them unchanged! But also because recourse to the traditional British tactic of "divide and rule" in order to maintain in subservient balance the opposing forces inside the "movement," the only thing that he seems to be succeeding in is to...have dissension rule. Whereas, Mr Papandreou is all the more losing his ability to constitute the cohesive substance of his party with his personality alone.

The Panagoulis "event" comes after that of Mr Petsos. Are not the charges against the government and party policy by two leading cadres, in the very first months in the exercise of power by the government of "change," developments enough for the person against whom these charges are meant to lose his coolness? Therefore, the prime minister's excitement is explainable.

Another significant element in the Panagoulis letter is --irrespective of the argument originating from the Left-- the revelation of PASOK's ideological and political inconsistency. A revelation that is acting negatively equally among those who continue believing that the strategic goals of the party are remaining "steadfast," as well as that element of the voters who consider Mr Papandreou's openings to the Center as a real and irreversible revision of the original extreme positions of the party.

In other words, the Panagoulis letter is instilling doubt and distrust among both the first and second categories of voters, something that in the final analysis is restricting Mr Papandreou's political maneuverability.

When, moreover, things are going from bad to worse in the economic field, once again because of the government's failure to lay out and implement an economic policy since it has not settled on the kind of social and political regime it wants to serve; and when the imminent electoral reckoning could offer the statistical argument of the discontent that is increasing in the ranks of PASOK voters resulting from the inconsistencies and weaknesses that the government is showing, then, everything that is happening assumes proportions of proceedings capable of cutting short the government's life.....

"But I," as Mr Papandreou has told friends, "will not suffer like my father. From the activities of 'staff officers.'"

However, how will Mr Papandreou prevent the criticisms and breaking away of his "staff officers" when they do not relate to or are derived from small changes of tactical management, but from a feeling of "betrayal" of the original obligations and proclamations? How will he choose, to place in government or other critical posts, those who will not have objections, regardless of what the changes of development are? And if in this way he undertakes the defense of his party and government achievements, will he not argue, indeed in a persuasive manner, the correctness of charges about a 180 degree turnabout from the original positions? In other words, will he not speed up the disintegration of the "movement?" The turmoil in PASOK's internal and governmental matters has only one broader concern. That it lessens to zero the hopes for some improvement from "change!" At least, for all those who supported it,

POLITICAL

GREECE

BRIEF

TWO TURKS REARRESTED--Ioannina, 27 August--Two Turkish political fugitives escaped from the Lavrion camp and tried to flee to Albania. They are Hasan Operim, 31 years of age, and Sebastin Kan, 25 years of age, both of whom were seized by the Igoumenitsa gendarmery. Once they had escaped from the camp, the two Turks, who are opponents of the military regime of their country, arrived in Patras by train. There they embarked on a ferryboat and reached Igoumenitsa. They at once aroused the suspicions of the city police authorities since they asked how they could get to the Sagiades area where the Greek-Albanian frontier is located. When they were taken to the police station for interrogation, it was determined that they were escapees from the political fugitives camp of Lavrion. /Text/ /Athens AKROPOLIS in Greek 27 Aug 82 p 8/ 5671

CSO: 4621/440

## PROGRESSIVE PARTY MP WARNS GOVERNMENT MAY FALL OVER ECONOMY

Reykjavik MORGUNBLADID in Icelandic 10 Aug 82 p 48

[Article: "Something Must Be Done Quickly or the Government Will Fall"]

[Text[ "In my view the only outcome will be a collapse of the basis for coalition if there is no cooperation or adequate economic measures to meet current needs." So stated Gudmundur G. Thorarinsson, member of the Althing, in a conversation yesterday with MORGUNBLADID. According to information available to MORGUNBLADID, the economic proposals of the People's Alliance are far weaker than those of the Progressive Party and the People's Alliance thinks that the economy cannot be put into order immediately. It can only be done in many stages, for example, in connection with the establishment of new bases for index figures. See the interview with Thorarinsson below.

The People's Alliance has now aired its definite proposals for economic measures within the government. They were discussed yesterday by the party central committee and the party Althing delegation is continuing discussions today. The proposals were first presented to a caucus of the People's Alliance Althing delegation on Friday and were discussed for 8 hours.

In its proposals the People's Alliance repudiates the fundamental changes that the Progressive Party would make in the indexing system, wage improvements, determination of fish prices, etc. The People's Alliance thinks that enough will have been done in the area of wage improvements on 1 September when the agreed upon 2.9 percent cut and the Olaf's law cut provisions come into force. The total cut will be 4.4 percent and that should do, in their view, for the time being. The next index figure bases could become operative later, on 1 December, and could be connected with other stages of the economic measures. It has been reported that Ragnar Arnalds plans to put into force a provisional law to the effect that the agreed upon cuts in Icelandic National Union contracts also apply to the Union of State and Municipal Workers and the Professionals Union.

The People's Alliance thinks that others besides wage earners should bear the burdens of the economic measures. They think that, among other things, Icelandic commerce is well off and that it made a profit of 300 million krona last year. But that resulted, among other things, from currency changes. It will also be necessary, in their view, to decrease the large trade deficit which is expected to amount to around 3 billion krona by the beginning of the year. The preference is for import limitations, among other things to make goods more costly and not such attractive items for trade as before. It is said that European Free Trade Association agreements and agreements of Iceland with the European Common Market prevent any effort to ban the import of individual brands.

The people's Alliance wants to decrease meat production in agriculture for the next 3 to 5 years to eliminate all export subsidies for agricultural goods.

In the area of assisting credit resources the People's Alliance proposals call for a new credit system for those parties that have recently purchased stern trawlers to decrease the interest on such loans and lengthen repayment periods. Those talking to MORGUNBLADID yesterday emphasized that what was under discussion were only proposals and not formal propositions and the proposals were not yet final and will become final only after much discussion has taken place. The proposals are not binding in any way. The People's Alliance's purpose in offering the proposals is to gain a feeling for whether or not there will in fact be an Althing majority for the propositions of the government when they emerge. There is, however, no reason to suppose that there will be.

9857

CSO: 3111/52

## PAPER CHARGES GOVERNMENT HAS FAILED IN ECONOMIC POLICY

Reykjavik MORGUNBLADID in Icelandic 30 Jul 82 p 24

[Editorial: "A Political Reshuffling"]

[Text] The experience of the last few years have shown that the Icelandic political apparatus is incapable of taking in hand and solving the serious problems that face us in the economy and in employment. A broad political reshuffling is thus one of the preconditions for gaining the political strength to grapple with these problems. One element of such a reshuffling would clearly be to insure that the Althing more closely reflects the will of the people than it does as it is now constituted. In this connection there is no reason to let the need for an overall revision of the Icelandic Constitution stand in the way of a necessary adjustment of the sizes of individual electoral districts.

Such a political reorganization, which is needed to resolve a very serious economic crisis, would have two main goals. One is a reorganization of fisheries and fishing. Outfitting and fishing fail to provide the profit which is necessary today and which this basic Icelandic occupation must provide if living conditions are not to deteriorate greatly. Outfitting costs are too high and the number of ships now fishing is in fact a national disgrace. Too much investment in fishing boats has now become a burden on the national household and the costs of fishing are much higher than they need be. Much has been done in years past to increase the profitability of cold storage and to improve catch utilization, but much still remains to be done. A major increase in the profitability of outfitting fishing ships and processing fish would be a primary precondition for improved living conditions and shoring up the national household.

The other goal is development of power generation and factories. As has been mentioned frequently, the three governments that have been in power since the autumn of 1978 have done nothing in this area. This is in spite of the fact that they have thus delayed the upswing in employment that will dominate Icelandic national life into the next century. Through the needed political reorganization we will make a purposeful beginning in attracting collaborators in industrial development which will be based on the energy to be produced by new Icelandic generating facilities.

The policy that has been followed by the People's Alliance in energy and in industrial matters is fraught with national danger, and loosening the grip of the dead hand of the People's Alliance in this area is one of the most immediate needs in Icelandic politics where the future wellbeing of the people is concerned. It is equally clear that in its positions in this area the People's Alliance is totally isolated from other Icelandic political parties, and it is difficult to see how this party can participate in the development now called for in every way.

Icelandic political forces must come to grips with these two goals through the political reorganization suggested above. In view of what has been happening, it matters little whether the fall of the present government comes now or later. The government's finance minister has stated that the Icelandic people are floundering in a sea of debt. This loose comment should be the government's epitaph. To be sure, it will be more difficult to deal with Iceland's problems the longer the government remains in office. The important thing, however, is that strong forces within the political parties come to an agreement about the political reorganization and about achieving the goals discussed here.

As things stand now, the present government is not providing political leadership and instead of uniting the people through its formation, it has divided them. It must be turned out of office, as the will of the public naturally demands.

9857

CSO. 3111/51



## YOUTH DEFECTING FROM VPK TO APK OFFERED TRAINING BY CPSU

Stockholm DAGENS NYHETER in Swedish 25 Aug 82 p 6

[Article by Ake Ekdahl: "Brezhnev Eyes VPK"]

[Text] Comrade Brezhnev is surely following the Swedish election campaign, in case anybody believes differently. He is especially interested in what VPK [Left-Party Communist] leader Lars Werner is doing. Recently several VPK youths broke away from Werner. The reason was that the VPK leader said too many nasty things about the comrades in Moscow and the military regime in Poland, they said.

Ten to fifteen youths from Stockholm, Gavle and Orebro turned in their party books and went to the competition, APK [Communist Workers' Party], the party which was created in 1977 around the newspaper NORRSKENSFLAMMAN in Lulea after a hard internal party fight around Werner.

It was only a few days until Brezhnev heard about this through his representatives. Two of the leading youths who broke with Werner will debut now by being invited to the party school in Moscow.

They are Anders Rosen, previously ombudsman for VPK youth, and Mats Ohlen from Huddinge. But the East Germans also approved of the splits in the VPK, and sent invitations to their party school in Brandenburg.

The conflict within the VPK is not the remains of the previous split when stevedore Gunnar Norberg in Kramfors led a revolt. It is VPK's new critical judgment about race persecution in Moscow, the military intervention in Poland and Czechoslovakia and the Russian submarine operations in the islands of Blekinge which has created new opposition.

The breach goes in both directions. At the party congress in Sodertalje one year ago the great debate was about the party's manifesto about democracy and VPK's relations with the socialist countries to the east.

One of the party's leading debators, Per Kagesson, wanted Werner to break all contacts with the leaders in Moscow, but the congress thought that would be going too far. The result was that Kagesson left the party.

One of the youths now breaking with the party and going to APK is Lasse Lundberg of Gavle. During the APK fight he was one of those who most vehemently criticized those faithful to Moscow.

Those who remain in VPK spend their time discussing why the party never gets bigger than four percent of the electorate. Great hopes are being placed by the congress in the new democracy manifesto which will show how independent the party is toward other communist parties.

But it is believed that the voters will not be convinced by this VPK goal.

9287

CSO: 3109/229

## ULMAN ASSAYS GREEK-CYPRIOT OBSTACLES TO SETTLEMENT

Istanbul DUNYA in Turkish 14 Aug 82 p 3

[Text] The intercommunal talks in Cyprus which had been adjourned last month, resumed on the day before yesterday. As known, the talks are being conducted for the purpose of bringing a new constitutional order to Cyprus which has effectively become a bizonal state following Operation Peace conducted by Turkey in 1974.

I don't know if it is necessary to say that the Greek-Cypriots are very reluctant concerning this matter. Even if they do not express it openly, inwardly they all would like to bring about a return to the situation existing before 1974. Some among them know that this is not a realistic attitude and that the Turkish community as well as Turkey would never acquiesce. Beyond a few who have openly stated this, most Greek-Cypriots are reluctant to openly voice such concerns. On the other hand, some among them genuinely believe in the illusion (of returning to the situation existing before 1974) and have had their hopes somewhat increased by the election of Papandreu who at least during the electoral campaign and the early days of his administration himself defended this illusion. As long as the Greek-Cypriots continue to believe in this illusion, is it possible to expect that the Cyprus problem can be resolved through intercommunal talks and that an agreement can be reached in these talks?

Truthfully speaking, it is not easy to respond to this question in the affirmative. Nevertheless, the Turkish side continues with great patience to seek a solution throughout negotiations. The Greek-Cypriot side on the other hand, is coming to the conference table not for the purpose of genuinely seeking for a solution but to avoid being labeled by world public opinion as the party responsible for bringing an end to negotiations initiated and sponsored by the United Nations.

The Greek-Cypriots do not believe that they can bring about a resolution of the Cyprus problem in a manner that is compatible with their desires through bilateral negotiations with the Turks, because such talks require them to give consideration to the requests of the other side. Instead, they prefer decisions by larger forums such as the bloc of non-aligned nations within the General Assembly of the United Nations. They believe that their horn will sound louder within such forums and that such forums would be more helpful in the task of mobilizing world public opinion against Turkey.

In fact, as the intercommunal talks went on in Cyprus, Kiprianou who is the leader of the Greek-Cypriot section stated that he was once again prepared to take the issue to the General Assembly of the United Nations because no result had been obtained from the talks in two years. In response, Denktas who is the leader of the Turkish community has let it be known that such an undertaking would signify the end of the intercommunal talks.

In fact, it is not possible to say that no positive results have been obtained from these talks that have dragged on for years. If the Greek-Cypriots do not retract their earlier consent on certain points, it can even be said that agreement had been reached over some important matters. As a primary example, we may cite the agreement that was clearly stipulated at the end of Makarios-Denktaş talks in February 1977 and which upholds that Cyprus shall be an independent, unaligned, bi-communal and federal republic. Since then, it has also been agreed that the federal republic will consist of two states or two federated states. As the result of further agreement, it has been decided that the federal republic will have a single flag, two official languages (Turkish and Greek) as well as certain official holidays. It has also been decided that the merger of the federal republic or of one of the federated states with another country as well as the secession of one of the federated states as an independent state would be out of the question. Nevertheless, a divergence of opinions concerning other matters continues to exist.

The first divergence of opinion concerns the duties and the powers of the federal government. The Greek-Cypriots would like to keep these duties and powers as broad as possible so as to bring about the establishment of a federal

mechanism that will well lend itself to Greek-Cypriot supremacy. On the other hand, the Turkish side defends the proposition that all duties and powers remaining beyond functions such as defense, foreign policy and finance should be exercised by the organs of the federated states and that the mechanism of the federal state should be structured in a manner that will make possible the equal participation of the two communities.

The second important divergence of opinion centers on the scope and exercise of the rights to travel, settle and acquire real estate. While recognizing these rights in principle, the Turks are requesting that their scope be determined not by the federal government but by the federated states as agreed upon by the Denktas-Makarios talks. The Turks also feel that these rights should be limited and gradually implemented in a fashion that takes into consideration the needs of the Turkish community. The Greek-Cypriots remain unwilling to accept any limitations. Their objective consists of bringing about the resettlement within the Turkish area to the north of those Greek-Cypriots who migrated to the south. Naturally, the Turkish side is unwilling to allow such a thing which would represent nothing but a return to the past.

In fact, a solution to the Cyprus problem will require an understanding by the Greek-Cypriots and Greece that they are no longer the sole proprietors of the island. At this time however, it is evident that they are not making an effort in that direction. The adversities that they will have to confront before they reach that stage remain to be seen.

9491  
CSO 4654/41.

## NSC ADJUSTS POLITICAL PROHIBITIONS

Istanbul MILLIYET in Turkish 5 Aug 82 p 7

[Text] Ankara (ANATOLIAN AGENCY)--The National Security Council [NSC] announced that Decree No 70 published yesterday rescinds NSC Decrees Nos 52 and 65 and institutes new regulations.

The resolution says: "National Security Council decrees numbered 52 and 65 are abolished and new regulations have been made in order that all of our citizens, specific associations and organizations and our press may participate freely and as extensively as possible in the constitutional debate, that benefit may be gained from their thoughts and views and, furthermore, that the public peace and order established may be perpetuated."

NSC Decree No 70 reads as follows, verbatim:

"National Security Council Decree.

"Decree No: 70

"1. The 12 September 1980 operation carried out by the Turkish Armed Forces for the purpose of establishing a sound and functioning democratic state has, through the patriotic support and will of the great Turkish people, come to a new phase, and the draft of the new constitution, prepared by the Consultative Assembly Constitutional Commission within the restored climate of peace, safety and national unity, has begun to be discussed in the Consultative Assembly General Session.

"For the purpose of developing and perfecting the draft of the new constitution so that our nation and our people may flourish in safety, peace and prosperity under the guarantees of true democracy, National Security Council decrees numbered 52 and 65 have been abolished and new regulations have been made in order that, first, all of our citizens, our press and specific associations and organizations may participate as extensively and freely as possible in the constitutional debate, that the benefit of their thoughts and views may be gained and that, furthermore, the public peace and order established may be perpetuated.



"A. Continuing Bans:

Bans are in effect against:

- 1) Any activity in the nature of political party endeavors, until such time as the political parties law is prepared according to the new constitution in that all political parties in existence on 12 September 1980 were abolished by Law No 2533,
- 2) Spoken and written statements of a nature to perpetuate the pre-12 September 1980 political conflicts between members of the abolished political parties or attributed to them,
- 3) Any form of dispute over decisions referred and bans placed in effect by the martial law commands in connection with the implementation of martial law,
- 4) Any form of comment and discussion, especially on denouncing the parties concerned in public trials in progress or to be instituted until such time as a verdict has been rendered, the publication and distribution in book or brochure form of court proceedings for the same purposes (open court trial records only may be published in newspapers and magazines provided they are accurate),
- 5) Spoken and written statements concerning the past or future political and legal status of Turkey, including those on the new constitution, by individuals possessing on 12 September 1980 the quality of general chairman, deputy or acting general chairman, general secretary, deputy general secretary and member of the general executive board of the abolished political parties.

"B. On Condition of compliance with the above terms:

- "1) All citizens including members of the government express orally or in writing their personal thoughts and opinions on the draft constitution, provided they make their personal statements and opinions link with the abolished political parties and their political activities and the associations whose political activities are considered extremist activities.
- "2) The high judiciary organs, the state organs, the Higher Education Council and universities, government organizations and associations of a public nature, press organizations, and other organizations whose activities have not been banned and other government organizations under special statute may express their thoughts and opinions on the new constitutional draft exclusively in the form of scientific and scholarly meetings, seminars and conferences, exclusively belonging to the juristic person of these institutions and organizations.
- "3) In the expression of thoughts and opinions on the constitution, other forms prohibited or restricted are taken into account which remain exclusively within the limits of the draft constitution.

and which retain no suggestion to influence how the people should vote on the constitutional referendum.

"2. Those who fail to comply with the prohibitions imposed by this decree, even if their actions constitute another crime, will be prosecuted also under article 16 of Martial Law Act No 1402."

8349

CSO: 4654/414

## DEFENSE SPOKESMAN ADDRESSES PEACE ASSOCIATION TRIAL

Istanbul CUMHURIYET in Turkish 1 Aug 82 pp 9, 12

[Text] ISTANBUL NEWS SERVICE--Halit Celenk, speaking on behalf of all the defense attorneys for all the defendants at the Peace Association trial on 27 July, said that this trial had been opened and the arrest order given on the basis of an expert report and security statements obtained subsequently from two suspects who were not defendants in the trial. "One of these suspects, Mehmet Aydan Bulutgil, is still disabled by the torture he underwent," he said. Celenk also said utilization of the tape recording system prevented freedom of the press and declared, "This trial is a trial which considers peace, disarmament and detente guilty and wants to convict them. Nowhere in the world have people been accused and tried in this way."

Opening his statement by saying they could not understand why "questioning was being conducted in alphabetical order," Celenk asked, "Might the distinguished committee be asked to explain their rationale for wishing to conduct the questioning in alphabetical order?" The session judge's reply, however, was: "Judge it how you will. The court does not have to explain this."

Pointing out that the juristic person of the association was on trial in this case, that the incident was singular and there was an organic link between the defendants, Celenk objected to the defendants' being called individually for questioning and said, "The important thing in trial is speed and maintaining security. If the questioning is conducted in this trial according to the probable procedure, speed will be sacrificed. It will take weeks, even months." Celenk then said:

"We believe the questioning of the defendants will be over in 2 days. Association President Mr Dikerdem has 20 pages of questioning and defense. The questioning and defense of other defendants who are members of the association's executive board will depend on this questioning and defense. It is important that all defendants be cross-examined together from the standpoint of the coherence of the case. Dikerdem's statements are such as to shed light on the whole of the case. It is possible for the trial sessions to be viewed collectively at Selimiye also and we seek this."

Halit Celenk then objected to the use of tape recordings and said that this method was objectionable from the standpoint of both the defendants' right to defense and freedom of the press.

Celenk also objected to the questioning's being done in alphabetical order, pointing out that there was no legal precedent for this practice. "If this method is admitted, the trial will go on indefinitely and justice will be delayed. Moreover, this practice is not legal. I have been in practice for 34 years and have never before seen such a thing," he said.

Touching next on the detention of the defendants, Halit Celenk said that the arrest order had been given on the basis of a defective expert report and the security statements extracted under torture from two defendants in another trial. Submitting to the court the 4-page interrogation record of these defendants, he said:

"These statements are the security statements of Mehmet Aydan Bulutgil and Ulvi Oguz. Mehmet Aydan Bulutgil is still disabled from the torture he underwent. Furthermore, during questioning in court, these defendants denied their previous statements, saying they had been tortured."

Stating that for these reasons, the arrest order had been in error from the very beginning, Celenk added that good will was fundamental to the enforcement of the law and, in reference to the method applied, said, "We have had three periods of martial law so far in Turkey and in none of them have we seen such a practice."

Celenk pointed out that the indictment speaks of the association juristic person, admitting the entire executive board as the defendant, yet collective responsibility exists in no legal system, that criminal responsibility is individual and everyone is responsible for his own opinions. He then said:

"In our case, there are not even any elements of article 141 of the TPC [Turkish Penal Code] which may be debated. There are no violations of the Associations Law either. We can see here neither elements of TPC article 141 nor elements of violation of the Associations Law. From the standpoint of both article 141 and the Associations Law, the detention of the defendants has become de facto punishment.

"This trial is a trial which considers peace, disarmament and detente guilty and wants to convict them. Our clients are here because of their thoughts, because they are the most humanitarian and the most human. They have been brought to court because they defend Peace. Nowhere in the world have people been accused and tried in this way.

"Articles 141 and 142 of the TPC condemn and punish the mere expression of thought. This is also made clear in the jurisprudence of the Military Supreme Court of Appeals. The trial and punishment of thought is outmoded. The crime of thought is an outmoded crime."

After Celenk's statement, Attorney Gungor Ercetin took the floor to say that the documents necessary for preparation of the questioning and defense of Dr Erdal Atabek had not been forwarded to him. He presented to the court a photocopy of Atabek's speech at the DISK [Confederation of Revolutionary Worker Unions] 7th Convention and asked that it be given to him. These documents were given to Atabek.

Reha Isvan then spoke, saying that after the attorneys had expressed their views he realized he had misunderstood about tape recording court proceedings. He said, "I thought minutes would be kept and the proceedings recorded on tape both. I learned here the objections to this." He asked that the "earlier statement relating to approval of recording on tape be corrected."

Dr Erdal Atabek spoke after Isvan. He said, "I and all of my colleagues who joined me also misunderstood the tape recording matter. We share Mr Celenk's views. Bearing in mind his objections, I would suggest that normal trial minutes be kept." He asked that his earlier statement be corrected. All of the defendants then asked that their statements in this regard be corrected and expressed their objection to the tape recording system.

Sener Mete, one of Orhan Apaydin's attorneys, then took the floor. He gave the committee, for handing on to Apaydin, a photocopy of his speech at the DISK 7th Convention and said:

"As opposed to the fact that in a speech he made at the DISK 7th Convention my client Orhan Apaydin pointed out that it was not necessary for the working class to resort to force and violence in the conduct of its democratic struggle, the indictment says just the opposite, indicating that my client spoke of the need for the working class to seize power by force. I request that this matter be borne in mind in the examination of his detention status."

Court then recessed at 1700 hours. After a 2-hour interval, the judicial committee took their seats again at 1900 hours and announced their decision as follows:

"Questioning will be done by the collective summons of all defendants under detention and will begin at the gymnasium of the Ataturk Student Dormitory, subsequent deliberation will be given to the continuation at Selimiye by individual summons of the defendants at future stages if necessary depending on factors which trial will bring to light,

"The record of court proceedings of subsequent sessions will be kept in writing, deliberation will be given at future stages to the matter of recording by tape depending on factors which trial may bring to light,

"Questioning of the defendants will begin according to the listing in the indictment,

"The remaining technicalities affirmed or to be affirmed will be deliberated and ruled upon at subsequent sessions,

"Since the opinion and conclusion was reached that the reasons for detention have not been removed, detention status will continue and all requests by defendants or their agents for their release will be denied,

"Bearing in mind the lack of opportunity and the impossibility of examining all of the said file owing to its having been conveyed at a time close to trial and that this examination will be possible during postponement, trial is postponed until 1000 hours on Friday, 17 August,

"By unanimous ruling."

## GENERAL KIESSLING ON FRG REPRESENTATION IN NATO

Frankfurt/Main FRANKFURTER ALLGEMEINE in German 13 Aug 82 p 5

/Report of interview with General Guenter Kiessling, deputy NATO supreme commander, by Adelbert Weinstein, datelined Casteau, 12 August 1982/

/Text/ The Federal Republic nominated General Juergen Brandt, Bundeswehr inspector general, candidate for the highest position in NATO. He is to become chairman of the MD /military delegation/ The competent electoral body of the Alliance adjourned its decision in early summer and postponed the election until September. This event was correctly interpreted as a rejection of the German proposal. The committee inclined to the appointment of a Dutch general to the chairmanship, and it took massive direct and indirect pressure from Bonn to obtain the compromise of altering the date of the election. In September the Spaniards will be able to cast a vote and are known to intend voting for General Brandt, making his election possible. However, it appears that German insistence on their own candidate may have upset hitherto well disposed Allies and caused them to change their minds. Consequently the outcome of the election remains in doubt. The question therefore arises whether the Bundeswehr's representation in senior NATO staffs is actually appropriate to its military contribution to the alliance. FRANKFURTER ALLGEMEINE ZEITUNG interviewed German four-star General Guenter Kiessling, deputy supreme Allied commander Europe (DSACEUR) to find out his views on the matter.

In terms of personnel, the Bundeswehr is represented in the Atlantic Headquarters SHAPE appropriate to its military contribution to the common Atlantic defense, says General Kiessling. "After the reorganization of the staff in Casteau, to take effect on 1 January 1983, the Bundeswehr will occupy 6 of the altogether 32 general positions. That is the same as the United Kingdom, going by stars it is even more."

Holding positions in SHAPE is an important consideration. There is no doubt at all that the German military capacity is rewarded by influential positions in this headquarters. At the same time there are other high commands and numerous subcommands in the Atlantic Alliance. Efforts are being made there also to achieve equality in appointments to these senior military offices and balanced representation of the Allies national armed forces in the integrated command authorities. However, the geo-strategic situation and NATO's development compel the conduct of personnel policies that sometimes fail to reflect the real military capacity of an allied nation.

It would be wrong, though, to describe a certain imbalance in the appointments to various commands as distortions of the Atlantic personnel structure. NATO is a unit,



and the principle applies that Luxembourg's voice counts for exactly as much as that of the United States. Both countries--and the same goes for all partner countries--are equally represented in the senior bodies--NATO Council and Military Delegation. "To be wrestled for over and over again, on the other hand, are the proper proportions in appointments to senior positions in the lower integrated staffs."

What are the criteria for allocating senior appointments? "I believe it is necessary to take into account several elements of Atlantic security and unite them in a satisfactory compromise. The real military contribution of the partner nation should, for example, influence appointments just as the geostrategic situation in a sector of our security system and the political special situation of an allied nation when--like Great Britain--it is also a nuclear power."

When we observe these criteria, it is quite possible to find a clue to the proportionate appointment to positions in integrated staffs. And again in observance of these criteria we should review the question whether Germans are appropriately represented in all NATO command authorities. "The Americans are making the overriding contribution to Atlantic security. Nobody will deny, therefore, that they deserve the leading role in the Alliance." Next in order of contributions to defense are Great Britain and the FRG. "As regards defense spending, these two partners hold the same rank." Nevertheless the Britons have a much stronger representation in the integrated NATO staffs than the FRG. Still, the goal should not be the "total equality of the Germans." "After all, other criteria must also be considered in addition to the defense contribution pure and simple."

The Federal Republic is primarily committed in Central Europe. The Britons, on the other hand, have additional duties in other sections of the Alliance. "That is obviously reflected in a much stronger British presence in staffs and command authorities." The United Kingdom is also a nuclear power. This fact, coupled with German restraint in nuclear matters, means that the British must be represented in certain NATO positions. "Nor should we forget that the FRG was not admitted to the Alliance until 6 years after its establishment. The situation of the Germans then may be compared with Spain's situation now. Latecomers are bound to have personnel problems."

Moreover, when comparing British and German general appointments in NATO, we must not forget that it was not possible immediately to remove all tensions remaining from the World War II period. It is therefore understandable that the British supplied the Supreme Commander North (CINCNORTH) in Oslo, though they contribute far less than the Germans to the general defense of that region.

"At the same time--when we recall the mortgage we Germans carry from World War II--it is also proper to emphasize the many examples of our quick acceptance by the Alliance and the matter of course fashion in which we were assigned command positions." Already in 1957 General Speidel, a German, was appointed supreme commander of all Allied land armies in Central Europe. In 1958 the first German general was given an important assignment in SHAPE: General Foertsch became deputy in the department for political and operational duties. In 1964 General Ferber assumed the post of director of the "Standing Group." In 1966 the Bundeswehr was assigned the supreme command of the Allied armed forces in Central Europe. "Ever since a German general has been supreme commander (CINCENT). In 1974 another German, General

Schmueckle, was appointed director of the NATO International Military Staff (IMS). Subsequently Schmueckle was the first German deputy of the Atlantic supreme commander (DSACEUR)." And, finally, two Bundeswehr generals have achieved access to the summit of the Alliance: Generals Heusinger and Steinhoff held the office of MD chairman in 1961 and 1970 respectively. "Nonetheless we Germans need to catch up in matters personnel. Initially we were very restrained--and properly so. Later our defense contribution gained substantial weight, and this is a factor making corrections inevitable." At the same time we must be careful to consider whether personnel shifts are actually feasible. The FRG's representation in SHAPE--let me repeat that--is perfectly adequate. On the other hand only one German general currently sits on the International Military Staff (IMS). The IMS is the integrated staff of the Military Delegation.../a line/lines seem to be missing here--translator/ these are all jobs that may be applied for.

An important command is that of the Allied Forces in Central Europe (AFCENT). In case of war its headquarters must command the majority of the Bundeswehr. "Here the Germans are preeminent. Not only do they furnish the supreme commander (CINCENT), they also hold as many posts as do the Americans and the English." It is politically and psychologically appropriate that the NORTHAG and CENTAG commands (that is the northern army group and the central army group), subordinated to the German supreme commander (CINCENT), are not commanded by German generals. The British Army of the Rhine is stationed in the NORTHAG sector. What could, therefore, be more compelling than for a Briton to hold the command of the respective Atlantic headquarters? The same applies for CENTAG. This army group is basically composed of American forces. Quite properly, therefore, an American four-star general is in supreme command of CENTAG Atlantic headquarters.

"German representation is unduly slight, on the other hand, in the AFNORTH sector --Allied Forces Northern Europe--, the northern flank of the Alliance that includes Norway, Denmark and Schleswig-Holstein. Though this NATO sector was not built up organizationally until the early 1960's--at a time when the FRG already put a respectable defense contribution at the Allies disposal--, we Germans have been unduly restrained in this sector. In the Oslo Agreement we established this restraint on a contractual basis. In the meantime the German contribution amounts to more than 50 percent of the armed forces and is therefore so strong that a review of the 20-year old agreements would seem appropriate."

No Germans at all are represented on two NATO staffs that have by no means negligible importance. No command positions are earmarked for German officers in the UK-AIR Command (the British Atlantic air defense command) and in AFSOUTH, the NATO southern command in Naples. "At least in AFSOUTH a German representation--however modest--would seem advisable, not only for the sake of training German officers for future top jobs in NATO. It is definitely justified in view of German military aid to Greece and Turkey."

In summation the following should be said about the Atlantic personnel situation: "Though we ought to continue to exercise restraint in certain NATO sectors, both contractually and psychologically, we must nonetheless try to commit ourselves 'NATO-wide.' We should do so if only to learn, to familiarize ourselves with all NATO defense problems and thus endeavor to collaborate in the Allied Command Atlantic (Norfolk) and the Allied Command Channel (Canal zone London)."

It is not merely a matter of obtaining greater influence within the Alliance. "I do not think much of endeavoring to achieve greater influence in an alliance. That sounds much too self-serving. There seems to be a connotation of 'looking after national interests.' Participation would be a much better term. Participation is far more appropriate to the nature of the NATO Alliance. We should therefore seek participation by our presence on all staffs."

Our wish for a more perfect personnel involvement in NATO defense policy must not be satisfied by requesting--and possibly getting--more and more general posts. "First of all we must review the personnel structure of the Bundeswehr." It would be wrong to breed a type of Atlantic general who leaves the Bundeswehr behind once he gets a NATO command. "We need a planned interchange between national and integrated employment. To achieve this it will be necessary to adjust our national personnel structure to that of NATO." So far the Bundeswehr has managed only exceptionally to fill the top jobs at the national level by generals with integrated Atlantic experience. "Our weakness is precisely among the generals, and that is our own fault. It is impossible with 200 generals and admirals to cope with the extensive and sophisticated tasks of modern armed forces and, in addition, supply highly skilled military leaders for top jobs in an alliance. Two hundred generals are not enough."

The Bundeswehr must now manage with 3 four-star generals and not quite a dozen of three-star generals. The British have 9 four-star generals, 8 three-star generals and 64 two-star generals in the army alone. The combined British Armed Forces have a "quota" of 19 four-star generals and another 3 who hold this rank but are paid only as three-star generals.

General Kiessling says he is citing these comparisons because figures demonstrate how much easier it is for the British Parliament to fill top jobs. "We, on the other hand, have not a single ZbV agency for generals. And yet, now as never before generals also need to be further educated." The FRG has hesitated for almost 10 years to set up a defense academy for the training of candidates for top jobs. "We need look no further than our great allies, the United States and Great Britain, to learn how to encourage top generals. Not even the most stringent budget situation represents an adequate excuse for neglecting the indispensable training of military top personnel."

Just because the Bundeswehr leaders--and political leaders--look to the British example with regard to the personnel structure of the Alliance and the equal appointment to high NATO posts, we must ensure that our claims are matched by our potential. "There is, of course, the natural advantage the British enjoy in the Alliance due to their mother tongue. There is also the conceptual system of the Anglo-Saxons and their different modes of procedure. The outsider takes a long time until he is trained to be familiar with this practice. Success in NATO is not achieved by intensive staff work alone; the officer in integrated staffs must be prepared for his 'job'."

In conclusion General Kiessling commented the efforts by the partners in the Alliance to assign as many as possible of their own officers and generals to the integrated staffs. He thinks we must not forget the military assignments awaiting these officers. "NATO officers must enable the commanders to command. They do remain officers of their national armed forces. They continue to have intimate ties

to their armies. That is demonstrated even by their uniforms. Yet, within an integrated NATO staff they are not primarily the representatives of their country. They have specific Atlantic functions." General Lemnitzer, a former Atlantic Supreme Commander, gave classical expression to that which should be understood by this term: "The members of all NATO headquarters must consider problems from the standpoint of the assignments allocated their supernational command authority, not from the standpoint of a particular country. If SHAPE--the NATO headquarters in Casteau--were made up only of the champions of national viewpoints without consideration for the Allied Command Sector Europe as a military entity, it would not be a headquarters, it would be a debating club."

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CSO: 3103/664

## BRIEFS

FORMER DEFENSE MINISTER BACKS BUILDUP--It would be unfortunate if the poor economic outlook led to a weaker defense budget than the one the Defense Commission of 1974 recommended, writes Norway's Defense Association in a letter to the government. The time is here for a substantial increase of the defense budget to strengthen conventional defense, states the letter. It is signed by the president, Alv Jakob Fostervoll, defense minister for the Labor Party in the beginning of the 1970's. The Defense Association points out several circumstances that require an increase of the defense budget at least equal to the increase recommended by the Defense Commission, i.e. a 4 percent yearly real increase. It refers to a lack of compensation for costs related to the implementation of the Work Standards Law that have led to reduced readiness and exercise activity. In addition, it pointed out the accumulated under-budgeting for several years, the worry many now have that our conventional defense is not strong enough to stop a nuclear war, and Norway's more dangerous position because of the Soviet's strong buildup of offensive weapon power in our area. A strengthening of our defense budget as recommended by the Defense Commission will be an important contribution to the defense of peace, writes Norway's Defense Association. [Text] [Oslo AFTENPOSTEN in Norwegian 26 Jul 82 p 3] 9984

CSO: 3108/140

## NAVAL COMMANDER PRAISES NEW MISSILE 15 SYSTEM

Stockholm DAGENS NYHETER in Swedish 14 Aug 82 p 3

[Article by Anders Ohman: "Commander-in-Chief of the Navy Gets New Missile: 'My Happiest Day'"]

[Text] "My happiest day as commander-in-chief of the Navy!"

Per Rudberg, vice admiral and commander-in-chief of the Navy was exuberantly proud and happy when he presented the new Swedish surface-to-surface missile Robot 15 for the first time on Wednesday.

The first surface-to-surface missile will now be installed on the torpedo boat "Pitea" and in 1985 the new surface-to-surface missile system will be aboard 12 ships--at a cost of 650 million kronor.

The fact that the first surface-to-surface missile of the new system has been manufactured in blue, harmless plastic--it is a dummy--did not cause the naval commander's-in-chief voice to falter when he described the striking power of Robot 15 in combat.

"It is considerably better than the French Exocet missile which was used in the Falklands war, and everyone knows what trouble it caused," Vice Admiral Per Rudberg said, referring to the sinking of the British destroyer "Sheffield."

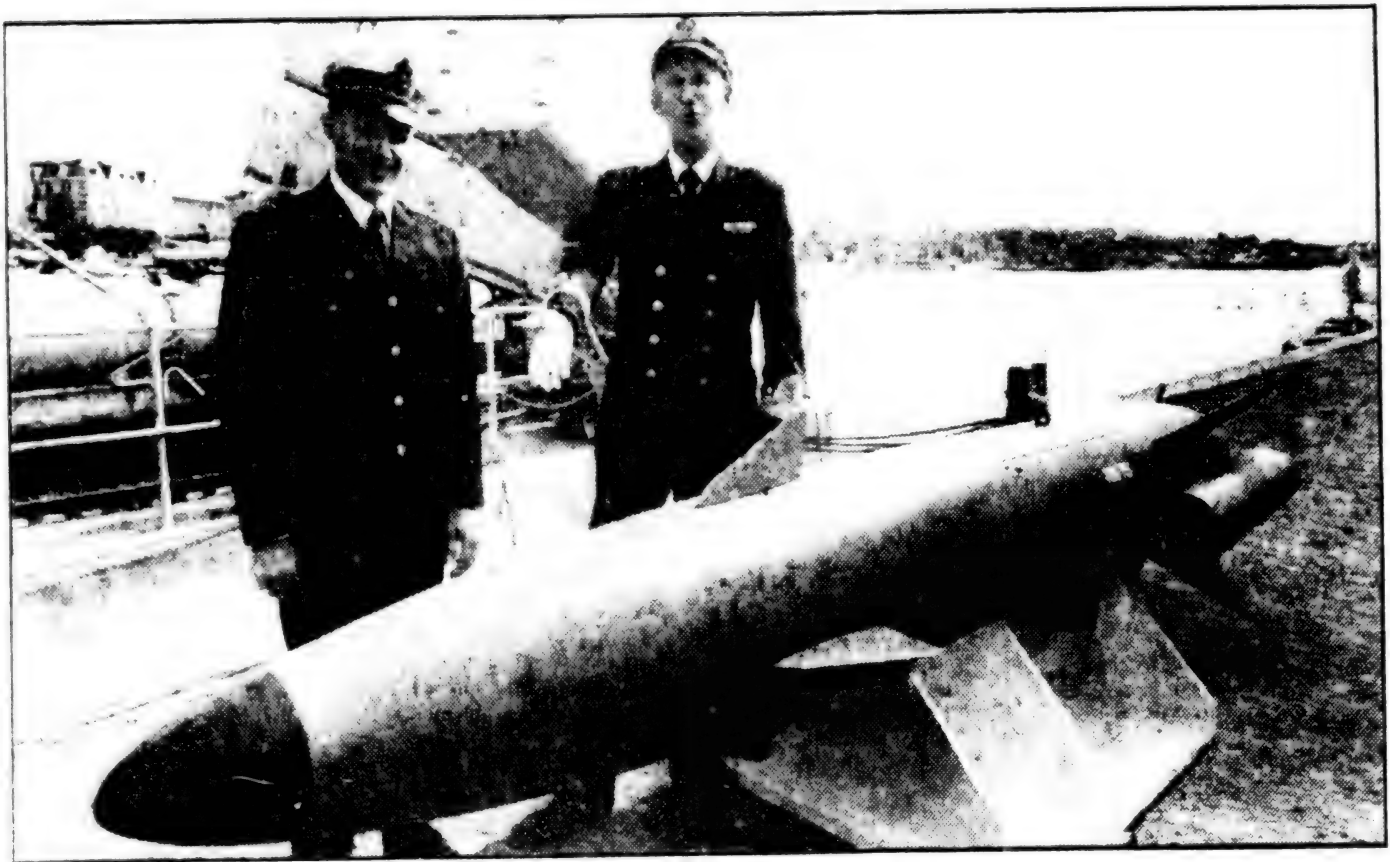
## Good Results

The surface-to-surface missile is of Swedish manufacture (Saab Scania) with certain important components produced in the United States and Japan.

Robot 15 will now undergo final testing during an operational test command with the torpedo boat "Pitea" as the first test ship. According to the test commander, Commander Hakan Larsson, the test results and test firings so far have shown good results.

The new surface-to-surface missile has a range in excess of 70 kilometers and flies at a speed of about 300 meters per second (more than 1,000 km/hour). It can be launched from a torpedo boat doing 35 knots in heavy seas. It is a so-called target-seeking missile, and according to the Navy fully comparable to the French Exocet and the U.S. Harpoon.





"... more reliable than the French Exocet," says happy Per Rudberg, right, about

Spica class.

The new missile torpedo boats of the Spica class will also receive the new Swedish 300-ton Torpedo 1-- remote-controlled torpedo with a range in excess of 10 miles. In order to be able to accommodate their missiles and torpedoes the ships have been fitted with a new tactical fire-control system.

At the head of the testing command, Hakan Larsson, a surface-to-air missile flight has the character of a duel. It is important to score a hit at great distances, often with the target being a ship. The Swedish missile boats will also have anti-aircraft armaments with which to shoot down enemy missiles.

On

## COAST GUARD PLANE BEING EVALUATED FOR ANTISUBMARINE DUTY

Stockholm SVENSKA DAGBLADET in Swedish 23 Aug 82 p 6

[Article by Erik Liden: "Coast Guard Aircraft Can Be Used for Hunting Submarines"]

[Text] The Swedish Defense Ministry is now investigating whether the new coast guard aircraft with improved equipment can be used in the hunt for foreign submarines both on and beneath the surface.

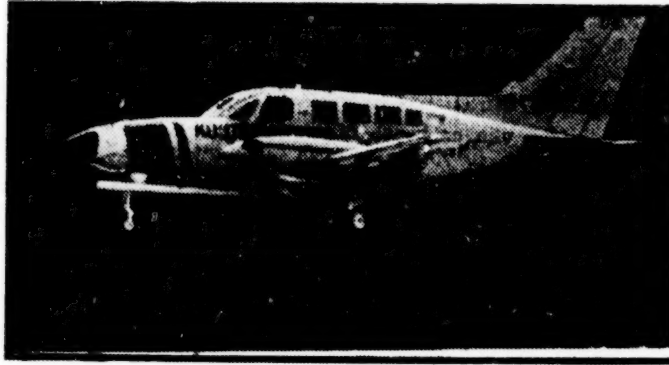
In this year's defense bill the Riksdag stated that the helicopters which the navy is now using for search and submarine hunting can be supplemented with conventional aircraft equipped with search capsules.

Swedair has equipped three aircraft for the coast guard with, among other things, an infrared camera which can detect changes of temperature on the ocean surface. It is normally used to determine whether a motor boat has visited a harbor to deliver narcotics, for example.

With an improved so-called IR scanner, submarines can be detected 20-25 meters deep. Even a side-searching radar is suitable for submarine search. In the future laser instruments can be built which will reach even greater ocean depths.

Swedair is now equipping an aircraft for the Netherlands Coast Guard and negotiations on additional sales are going on with the Netherlands, Mauritania and Mozambique. Other countries in Europe have looked at the search equipment which was developed by Rymdbolaget.

A fully equipped Cessna, which is normally used for search, costs 10-12 million kronor today for the buyer. For Swedair each plane is worth about 5 million kronor. They are increasingly used abroad for fishing surveillance and patrolling territorial borders at sea.



Caption: With improved IR cameras the coast guard's aircraft can cooperate in the search for foreign submarines.

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